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ABSTRACT

In response to 1975-76 legislative action calling for a study of alternative funding procedures for community colleges, the California Postsecondary Education Commission focused this report on (1) the sources of income for current operations, and (2) capital outlay, including the methods and procedures by which it is provided. In each area, the study investigated the history of existing state and local support systems, the conceptual foundation of these systems, the potential use of market behavior theory as a guide to state policy formation, and community college finance in other states. Deficiencies and alternatives to the present system are presented, as are specific recommendations regarding modification and equalization of state funding formulas. The study also proposes a shift from a statutory to an annual budgetary system, retention of tuition exemption from credit courses, further study on non-credit funding, reinstatement of the 1967 Community College Construction Act, state support for off-campus instructional space, and dropping the demographic funding factor pending further study. Support data were gathered from existing financial, legislative, and enrollment literature, interviews with system and college administrators, and by two surveys of other states. Extensive statistical data, questionnaires, and financial information from Colorado, Florida, Hawaii, Illinois, Mississippi, New York, Texas, and Virginia are included. (RT)

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Commission Report 77-3
June 1977

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FINANCIAL SUPPORT FOR THE CALIFORNIA COMMUNITY COLLEGES: CHARACTERISTICS, OBJECTIVES, AND ALTERNATIVES

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

JC 770 394

Resolution 14-77

Resolution Concerning
Financial Support for the California Community Colleges:
Characteristics, Objectives, and Alternatives

WHEREAS, The Legislative Analyst requested that the California Postsecondary Education Commission study alternative funding procedures for California's Community Colleges and report its findings and recommendations to the Joint Legislative Budget Committee, and

WHEREAS, The Legislative Analyst also recommended that the Commission include in its study the merits of the foundation approach versus the merits and feasibility of a method of State support similar to that for the University of California and the California State University and Colleges, and

WHEREAS, Commission staff has completed a comprehensive report entitled, Financial Support for the California Community Colleges: Characteristics, Objectives, and Alternatives, together with recommendations, in response to the request of the Legislative Analyst, and

WHEREAS, The Commission has considered this report and the recommendations, has heard extensive testimony from the many interested parties, and has weighed all of this information and the many opinions on Community College finance; now, therefore, be it

RESOLVED, That the support formula for financing Community Colleges be modified to ensure continued equalization of State support among the Community College districts, as described in Recommendation 1, Part I, of the report, and be it further

RESOLVED, That the support formula for financing Community Colleges also be modified to reduce the impact of any enrollment losses on low-wealth districts, as described in Recommendation 2, Part I, of the report, and be it further

RESOLVED, That in the absence of action on Recommendation 1 above, the support formula for financing Community Colleges be amended to delete the provisions whereby the equalization factor is applied to the inflation

factor in calculating each district's basic apportionment, as described in Recommendation 3, Part I, of the report, and be it further

RESOLVED, That the demographic factor be dropped in the support formula for financing Community Colleges pending further study and justification, as described in Recommendation 4, Part I, of the report, and be it further

RESOLVED, That the support formula for noncredit Community College courses, as described in Recommendation 5, Part I, of the report, be referred to the Commission's Ad Hoc Committee on Lifelong Learning for further study, with a report to be submitted to the Commission at the earliest practicable date, and be it further

RESOLVED, That the Community Colleges remain tuition-free for individuals enrolled in credit courses and that other student charges for noninstructional services remain at a minimum, as described in Recommendation 6, Part I, of the report, and be it further

RESOLVED, That the present statutory system of State support for the Community Colleges be changed to one which will permit and encourage annual review of such support by the Legislature, without making any significant changes in the apportionment formula other than those recommended in this Resolution, as described in Recommendation 7, Part I, of the report, and be it further

RESOLVED, That the State return to full financing of the 1967 Community College Construction Act, using General Fund revenues, if necessary, until a statewide bond issue can be passed, as described in Recommendation 1, Part II, of the report, and be it further

RESOLVED, That an amount up to $1 million be appropriated annually by the State to match Community College district expenditures for the lease of rental of off-campus instructional space from other than public agencies, as described in Recommendation 2, Part II, of the report, and be it further

RESOLVED, That the California Postsecondary Education Commission adopt the report, Financial Support for the California Community Colleges: Characteristics, Objectives, and Alternatives, and the recommendations set forth above, and transmit them to the Joint Legislative Budget Committee, to the State Department of Finance, to the Board of Governors of the California Community Colleges, and to the governing boards of all Community College districts.

Adopted
June 13, 1977

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INTRODUCTION

The California Community Colleges are a system of 104 campuses and more than 2,500 off-campus sites, administered by 70 local community college districts and a state Board of Governors. The community colleges offer lower division (freshman and sophomore) instruction in the arts and sciences and occupational fields, for which they award associate in arts and associate in science degrees. In addition, the community colleges offer extensive training in technical fields, adult education classes, occupational "renewal" programs, and community service programs. In recent years, education for part-time adult students has become their predominant function.[1] More than half of all community college students are 25 or older, and about one-quarter are 35 or older.

In 1976-77, it is estimated that the California Community Colleges will enroll 380,000 full-time and 850,000 part-time students. The people of California will provide approximately $1.5 billion for their support, of which $1.3 billion will be for current expense and approximately $150 million for capital outlay. Although the California Community Colleges continue to derive the largest portion of their support from local sources, principally property taxes, state support is also very substantial: an estimated $580 million for current expense and $27 million for capital outlay in 1976-77.

The system of financial support for the California Community Colleges has evolved over the past 60 years in close association with the developing system of support for the state's public elementary and secondary schools. It was only ten years ago that a separate program for capital outlay support was established and only in the past year that provisions for state support for current expense were adopted that are significantly different from those in effect for the public school system. The changes that have come about in the last few years are generally recognized as tentative efforts to develop a new support structure that assures continued local responsibility for community college administration and at the same time reflects their importance as part of California's extensive system of postsecondary education.

The last major study of community college support was undertaken by the Coordinating Council for Higher Education in 1969. Because there have been many important changes in community college financial

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1. Through the Open Door: A Study of Enrollment and Performance in California's Community Colleges, California Postsecondary Education Commission (January 9, 1976).

support since then, it was appropriate for the Commission, in its capacity as California's statewide planning and coordinating agency for postsecondary education, to reexamine the structure of state and local support for the California Community Colleges so as to advise the Governor and Legislature as to the present adequacy and effectiveness of that system.

This study originated with a recommendation by the Legislative Analyst in the Analysis of the Budget Bill for 1975-76 that:

> . . . the California Postsecondary Education Commission study alternative funding procedures for Community Colleges and report its findings and recommendations to the Joint Legislative Budget Committee by December 1, 1976.[2]

In support of the recommendation, the Analyst's report stated:

> Chapter 209 did not change the imposition of traditional elementary and secondary school funding procedures on Community Colleges. As a result problems which continue to persist in public grade school funding also exist in Community College funding (e.g., inequities between district financial resources). In addition, Community Colleges perform different missions (e.g., transfers to baccalaureate degree programs, occupational programs, apprenticeship programs, community service programs, police in-service training programs) each of which has different cost factors and should warrant different types and levels of support. Thus elementary and secondary school funding procedures are not very logical for Community Colleges and the complexity of existing formulas is extremely difficult to understand or control.
>
> We believe alternatives to the existing apportionment process can be devised that would simplify and improve the funding of local Community Colleges. Further, the magnitude of annual General Fund increases ($43 million in 1974-75 and $46 million in 1975-76) suggests that any improvement in the allocation of state

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2. Analysis of the Budget Bill for 1975-76, Report of the Legislative Analyst to the Joint Legislative Budget Committee, Sacramento (1975), pp. 809-810.

> funds could bear substantial rewards in specified program improvements and statewide equity . . . .

The Legislative Analyst expanded upon the original recommendation with this statement in the Analysis of the Budget Bill for 1976-77:

> We recommend that the Legislature direct the Postsecondary Education Commission to include in its ongoing study of Community College financing the merits of the foundation approach versus the merits and feasibility of a method similar to state support for the University of California and the California State University and Colleges.[3]

In explaining this recommendation, the Legislative Analyst observed that:

> Historically, the Community Colleges have been financed in the same manner as elementary and secondary education. However, the goals of the Community Colleges are generally agreed to be different from those of the K-12 section. Thus, while a foundation program may meet the needs of elementary and secondary education, it may not be best suited for the Community Colleges.
>
> A number of proposed funding methods for Community Colleges respond to the K-12 Serrano issue. These proposals assume the continuance of some type of foundation program. It is our understanding that the current CPEC study is also focusing primarily on alterations within a foundation framework. We recommend that the CPEC study examine the merits of foundation support versus the merits and feasibility of a method similar to state support for the University of California and the California State University and Colleges.

Both of these recommendations were approved by the Legislature and

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3. Analysis of the Budget Bill for 1976-77, Report of the Legislative Analyst to the Joint Legislative Budget Committee, Sacramento (1976), p. 918.

incorporated in the reports of the Conference Committees on the Budget Acts of 1975 and 1976. In accordance with these legislative directives and the Commission's continuing statutory responsibilities in this regard, the Commission's staff began a comprehensive study of community college support in October 1975. The primary objective of this study has been to reexamine the entire structure of financial support for the California Community Colleges to determine the need for changes that may be expected to strengthen that structure without sacrificing important state and local interests. In doing so, the study staff has:

1. Reviewed the historical development of the existing systems of state and local support for current expense and capital outlay;
2. Examined the conceptual foundation for the existing system;
3. Explored the potential contribution of economic analysis--specifically, market behavior theory--as a guide to state policy formulation;
4. Studied representative community college support systems developed by other states;
5. Examined the recent literature of community college finance and the financing of postsecondary education generally; and
6. Interviewed many community college administrators as well as administrative and legislative staff at the state level as to the strengths and weaknesses of the existing system and the merits of a variety of alternative systems.

It is important to note that this study has not dealt with expenditures by the community colleges but with the income that is provided by the districts, the state, the counties, the federal government, and the students to support the colleges. Thus the study has been concerned with the sources of income for current operations and capital outlay and the methods and procedures by which it is provided rather than the purposes for which it has been spent.

Much of this work was undertaken by three members of the Commission's staff, George Fredrick Thompson, William H. Pickens and Larry R. Jones, under the supervision of Courtland L. Washburn. In August of last year, Dr. Thompson went on a nine-month leave and was replaced as study director by Jerome Evans.

In carrying out the study, the staff has received the advice and criticism of a Technical Advisory Panel made up of the following persons:

Dr. Robert E. Swenson, President, Cabrillo College

Dr. Charles W. Brydon, Assistant Dean of Instruction, Valley Campus, Chabot College

Mr. Lee Meyers, Associate Executive Director, California Community and Junior College Association

Dr. Leland L. Medsker, Research Educator, Center for Research and Development in Higher Education, University of California

Professor Ruth Shen, Department of Economics, California State University, San Francisco

Mr. John Richards, Senior Administrative Analyst, Budget Planning and Administration, California State University and Colleges

Mr. Ian Hardie, Trustee, Yosemite Junior College District

Mr. M. Charles McIntyre, Director of Analytical Studies, California Community Colleges

Mr. Gerald Hayward, Consultant, Senate Education Committee

Mr. Bruce Fuller, Consultant, Assembly Permanent Subcommittee on Postsecondary Education

Mr. George Thomas, Assistant Administrative Analyst, Joint Legislative Budget Committee

Mr. David Walrath, Budget Analyst, Department of Finance

None of these persons is responsible for the findings and recommendations contained in this report. Several members of the committee expressed strong opposition to certain of the recommendations regarding support for current expense.

PART I

SUPPORT FOR CURRENT EXPENSE

SECTION 1

DEVELOPMENT OF THE PRESENT SYSTEM OF SUPPORT FOR CURRENT EXPENSE

In 1907, the California Legislature authorized the public high schools of the state to offer "postgraduate courses of study . . . which courses of study shall approximate the studies prescribed in the first two years of university courses."[1] The first California junior college was established in 1911 in Fresno, but it was not until several decades later that the development of the junior colleges--or community colleges as they will be called hereafter--began in earnest. In the mid-1920s there were still only 31 colleges, with a total enrollment of 6,300. During the 1930s and 1940s, however, twenty-three new community colleges were established, and by the time of the Strayer Report in 1948 there were 55 community colleges with a total enrollment of 60,346, or about thirty-five percent of total higher education enrollment in California. Eleven years later, at the time of the Master Plan Survey, there were 63 community colleges enrolling 257,821 students in graded classes and 53,973 students in "classes for adults." In the next decade and a half, the community colleges continued to grow rapidly, reaching a total enrollment of 704,768 by 1969-70 and passing one million four year later, as shown in Table 1.

Table 1: Enrollment in California Community Colleges at Five-Year Intervals, 1950-51 through 1975-76

Year	Average Daily Attendance	Total Enrollment[1]
1950-51	94,377	130,161
1955-56	125,467	210,002
1960-61	182,378	340,049
1965-66	321,787	543,225
1970-71	517,339	826,596
1975-76	768,902	1,275,600

1. Fall Enrollment

Source: Office of the Chancellor, California Community Colleges

1. Carl G. Winter, History of the Junior College Movement in California, Bureau of Junior College Education No. 20, State Department of Education, 1964, p. 1.

It is only in the past year or two that it has become clear that this period of growth is ending and that the community colleges, like other postsecondary institutions in California and throughout the nation, must adjust to a new period in which there will be little or no growth and, quite possibly in the early 1980s, some years of declining enrollments. Several areas of the state may continue to need new and enlarged community college facilities, but for most of the state the next decade is likely to be one of gradual development and relatively stable enrollments.

Evolution of the Foundation Program

From the beginning, the system of state and local support for the community colleges has been essentially the same as that for the public elementary and secondary schools of the state.[2] From 1917, when the Legislature first established a system of financing for the community colleges, until 1947, each school district operating a community college received from the state a fixed amount per unit of average daily attendance (ADA). Separate community college districts received, in addition, a flat $2,000 per year. All districts were required to meet the balance of their costs from local property tax revenues.

In 1947, acting in response to state constitutional amendments approved by the voters the preceding year, the Legislature established a foundation program for support of public education from the elementary grades through the community college level.[3] Under this system, the state established a "foundation amount" for each level of instruction--elementary, secondary, and community college--representing the minimum cost of education for each student (with enrollment measured in ADA). The state provided a portion of this amount as basic aid to which every district was entitled. Each district was then responsible for so much of the balance as could

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2. For a somewhat more detailed summary of the early history of community college finance, see Financing California's Public Junior Colleges, Coordinating Council for Higher Education, Number 1029, June 1967, pp. 1-2.

3. The foundation program system, which was adopted by many states during this period, was an outgrowth of a school finance plan advanced by George D. Strayer and Robert M. Haig in 1920 in a report entitled Financing Education in the State of New York (New York: MacMillan: 1923). The purpose of the foundation program was to achieve equalization of the local tax burden expenditure "up to a prescribed minimum" through state and local sharing.

be produced by a certain tax--known as the computational tax rate--against its assessed valuation. The state provided such additional aid--called equalization aid--as was necessary, when added to state basic aid and the local share as determined by the computational tax rate, to make up the full foundation amount.

In the case of the community colleges, the foundation amount was set originally at $200 per unit of ADA. Basic aid was fixed at $90 per ADA plus $2,000 per college. The district computational tax rate was set at $ .20 per $100 of assessed valuation (applied against ninety percent of each district's assessed valuation). Beyond this, the districts had to rely on local revenues and were free to spend whatever amount they wished, provided that their general purpose tax rate did not exceed the statutory maximum of $ .35 unless a majority of the local voters agreed to a higher rate.

In 1953 and 1954, the Legislature divided community college attendance into two categories for purposes of state support: "defined adults" (students aged 21 or older and enrolled for less than 10 class hours per week) and "other than defined adults." It also required separate reporting of attendance for "regular classes" (graded classes) and "classes for adults" as well as for "in-district" and "out-of-district" ADA. Although the foundation amount for regular classes and classes for adults remained the same, a ceiling was placed on equalization aid for ADA in classes for adults, which had the effect of creating a second, and lower, foundation program for such classes. A similar ceiling was placed on equalization aid for adult ADA, compounding the effect of the first ceiling. All of this was intended to establish some indirect control over the cost of adult education, which was thought to be less expensive and somewhat less important to the state than lower division instruction.

In 1961-62, the $2,000 flat grant to all districts was eliminated, the foundation amount was raised to $543, and basic aid was increased to $125 per ADA. At the same time, the computational tax rate was raised to $ .24, partly offsetting the foundation amount increase. In addition, equalization aid was eliminated for "out-of-district" ADA in an effort to encourage the inclusion of all areas of the state within a community college district.

Concurrently with the development of these refinements of the foundation program, there was a continuing effort, led by community college district administrators and board members, to raise the percentage of state aid in relation to total current expense. This effort received important backing from the Master Plan Survey Team, which recommended to the Legislature in 1960 that state support be increased to the level of 45 percent of total current support for the community colleges by no later than 1975. Although the reasoning behind the selection of 45 percent as the appropriate goal was never made explicit, it can

be surmised from the reported discussions of the Survey Team that some members believed this would result in a substantial increase in state support without giving the state a controlling interest in the community colleges.

Whatever the merits of that position, it was seriously undercut by the fact that the foundation program system of state support was not designed to achieve any specific level of state participation. Rather, that level moved up or down according to the ability, on the average, of local districts to contribute to the foundation amount from their local tax bases. The state share rose when the foundation amount was increased, the district computational tax lowered, or when ADA grew more rapidly than district assessed valuation. But the state share fell whenever the foundation amount was allowed to fall significantly below average expenditures or when when assessed valuation grew faster than ADA, as has occurred frequently over the past 15 years.

As shown in Table 2, the state share of total district general fund income has fluctuated between a low of 25.3 percent and a high of 42.9 percent since 1965-66. And when state support is compared with district general fund expenditures, the range is from 27.5 percent to 53.9 percent. In the years following the Master Plan, nevertheless, the community college foundation amount was raised repeatedly in an attempt to move closer to the 45 percent goal and to keep pace with rising community college operating costs.

The next major change in community college support came, however, not as a result of a concern for the proportion of current expenses borne by the state. It came, rather, as a consequence of the Legislature's effort to reduce local property taxes and to ensure that its achievements in this regard would not be rapidly eroded by increases in spending by local government and the schools. Beginning in 1967, the Legislature passed a series of property tax relief measures intended to substantially reduce property taxes for homeowners, renters, and businesses with large inventories. Then, in 1972, the Legislature passed SB 90 and AB 1267 establishing revenue limits for the cities, counties, special districts, and school districts operating elementary and secondary schools. In the case of the school districts, the state limited the total amount of revenue per ADA from state and local sources, excluding categorical aid, that a district may spend without a vote of the district electorate.

In 1973, the Legislature extended revenue limit control to the community colleges under the provisions of SB 6 (Chapter 207, Statutes of 1973). Prior to SB 6, spending by community college districts was limited to what they received in state aid plus revenues from a general purpose tax rate of no more than $ .35, a rate that could not be exceeded without the approval of a majority of the district voters. The

Table 2: State Support as a Percentage of the Total General Fund Income and Expenditures for Community College Districts, 1965-66 through 1975-76

Year	District General Fund Income (Millions)	District General Fund Expenditures[2] (Millions)	State Support (Millions)[3]	% of Current Income	% of Current Expenditures
1965-66	$ 226.7	$179.9	$ 61.1	27.0%	34.0%
1966-67	258.4	213.3	65.4	25.3	30.7
1967-68	297.7	244.8	80.8	27.1	30.0
1968-69	345.8	292.3	92.9	26.9	31.8
1969-70	415.1	346.8	126.1	30.4	27.5
1970-71	541.4	469.2	185.8	34.3	39.6
1971-72	602.9	565.3	203.1	33.7	35.9
1972-73	674.1	622.5	220.6	32.7	35.4
1973-74	835.6	660.1	348.5	41.7	52.8
1974-75	1,000.4	795.3	428.7	42.9	53.9
1975-76	$1,137.8	$957.2	$491.3	43.2%	51.3%

1. Income, expenditure, and support figures exclude amounts for colleges operated by unified school districts 1965-66 through 1969-70, and income and expenditures for statewide administration from 1968-69.

2. Excludes capital outlay and debt service.

3. Excludes support for Board of Governors and Statewide Administration.

Source: State Controller, Annual Report of Financial Transactions Concerning School Districts

districts were also authorized to levy a number of "permissive" rates, but most of these were also limited and the revenue could only be spent for particular purposes (e.g., the $ .10 adult education tax). SB 6 eliminated the general purpose tax rate ceiling and several of the permissive rates. In their place, a revenue ceiling was established for each district based on its level of expenditure per ADA

for 1972-73 and adjusted annually by an inflation factor.[4] No district could exceed this limit without the approval of a majority of the district voters.

SB 6 also provided a very substantial increase in state aid by raising the community college foundation amount from $643 to $1,020 per ADA, excluding "adult" ADA, for 1973-74 and providing annual increases beginning at $60 and rising to $66 per ADA thereafter. This increase was only partly offset by an increase in the computational tax rate for nonadult ADA from $ .25 to $ .39 per $100 of assessed valuation. SB 6 also raised the foundation amount for "adult" ADA from $520 to $556 per ADA and provided annual increases of 7 percent per year for the next three years. In addition, it excluded nonresident ADA from the foundation program computations and required the districts to charge nonresident students an amount equivalent to the district's average cost per student in graded classes. The net effect of these and related provisions was to increase state apportionments by $70 million over what they would otherwise have been in 1973-74.

With the higher foundation program and its built-in inflation factor, the new formula increased state support from 34 percent to 43 percent of district incomes in 1973-74 and promised to provide a further increase to 49 percent by 1979-80.[5] Moreover, by raising the foundation amount to the statewide average expenditure per ADA for all districts, it extended equalization aid to all but five small districts. Thus, although SB 6 retained the foundation program system for determining state support, it tied that support even more directly to enrollment.

Elimination of the Foundation Program

As it turned out, however, an unexpectedly rapid increase in adult ADA in 1975-76 threatened to push community college costs considerably higher than had been expected when SB 6 was enacted and led to

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4. The general method of determining state support for each district under SB 6 was as follows:

   Nonadult ADA: ($1,143) (nonadult ADA) - ($ .39) (district AV)

   Adult ADA: (adult ADA) [$637-(district AV / nonadult ADA) ($ .24)]

   Every district was guaranteed a minimum of $125 per ADA of each type. In 1975-76, however, the Legislature limited state aid above the $125 minimum to no more than 105% of each district's ADA for the preceding year.

5. 1976-77 Finance Program, Board of Governors, California Community Colleges (Sacramento, December 1975).

its scrapping within only two years. State budget planners had projected a 4.6 percent increase in community college ADA for 1975-76, but the actual increase from spring to fall was 16.6 percent.[6] Faced with this unexpected ADA growth, which had developed among the adult education programs of the high schools and regional occupational centers as well as among those of the community colleges and which threatened to increase state costs by as much as $159.7 million in that year, the Legislature, at the urging of Governor Brown, imposed a 5 percent limit on enrollment growth that would be supported with state aid. Accordingly, the Budget Act for 1975-76 provided that state equalization aid under the foundation program would be extended to no more than 105 percent of the ADA of the preceding year (this ceiling was also applied to adult ADA reported by high schools and regional occupational centers). Thus, the community college districts were required to meet the full cost of any attendance growth beyond that 105 percent ceiling, or "cap," as it was called.

Imposition of the "cap" saved the state as much as $97.5 million in 1975-76, according to an estimate by the Legislative Analyst, but it forced districts with growth rates above 5 percent to consider sharp increases in local tax rates, reductions in General Fund reserves, or cutbacks in existing and planned instructional programs. Moreover, wealthy districts with relatively low growth rates were unaffected, so that the "cap" increased the financial inequality among districts that state aid was otherwise intended to reduce.

Although the "cap" was generally conceded to be necessary to control rapidly rising expenditures, it was adopted only as a temporary measure until changes in the support system could be devised that would be more equitable for individual districts, and, at the same time, give the state some protection from what the Governor and the Legislature thought to be excessive cost increases. Accordingly, a number of important changes were proposed at the 1976 Session of the Legislature, among them proposals supported by the Board of Governors, the Postsecondary Education Commission, the State Department of Education, and the State Department of Finance.

The Board of Governors of the California Community Colleges proposed a "percentage equalization" plan to replace the traditional foundation program. Under this proposal, which was put before the Legislature as SB 1871 (Behr), the state was to allocate a fixed percentage of state General Fund revenues for the support of the community

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6. The reasons for this unexpected increase are not altogether clear, but it is likely that a weakened job market, a sharp increase in state aid, and aggressive advertising by college officials were important factors.

colleges. This was to produce a certain amount of aid per ADA, depending, of course, on the size of the appropriation and total community college ADA, with the distinction between adult and non-adult ADA eliminated. State aid was to be allocated among the districts according to their assessed valuation per ADA in comparison with the assessed valuation per ADA for all districts, with the average state share of total current expenditures to range between 40 and 45 percent. Although the total appropriation was to be related to annual increases in the state General Fund, the board also suggested that the amount be increased each year according to the changes in the index for state and local government purchases of goods and services over the preceding three years.[7] It also proposed a separate aid formula for colleges with no more than three thousand ADA.

The Postsecondary Education Commission also proposed a "percentage equalization" plan, under which the state share was to be fixed at 45 percent statewide, with the allocation to each district adjusted up or down in relation to the district's assessed valuation per ADA compared to the statewide assessed valuation per ADA. In the Commission's plan, it was to be the revenue limit for each district that was to be increased annually with increases in the state's General Fund. In addition, courses labeled as "occupational/recreational," were not to be eligible for state support, and basic aid was to be eliminated.

The State Department of Education favored a third proposal initially intended to deal only with adult education offered by high schools, regional occupational centers, and the community colleges. As far

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7. In a position statement adopted in December 1975, the Board of Governors stated that "Annual changes in the total authorized general revenue from state and local sources should be based upon (a) changes in the number of workload units, expressed in ADA (plus enrollment or other out-of-class workload measures when and if applicable) and (b) changes in the revenue base per workload unit calculated with reference to an index such as State and Local Government Purchases of Goods and Services." This, the Board said, would "correct the inadequate increases provided in existing statute" and "better recognizes changing conditions" while providing "known and timely increase to aid fiscal planning."

   The Board also stated that by fixing state support at between forty percent and forty-five percent of the revenue base, the proposal would make "state sharing objectives explicit and the results predictable and controllable, providing for effective fiscal planning without resorting to techniques that may arbitrarily and inequitably affect college programs and salaries."

as the community colleges were concerned, this plan would have continued the five percent "cap" on graded enrollment but would have eliminated the distinction between adult and other ADA and would have established a single foundation amount of $800. It would also have eliminated state aid for the ADA of students not enrolled in degree or certificate programs or concurrently in four-year institutions.

The Department of Finance offered a fourth plan that, although not spelled out in the same detail as the others, would have barred state aid for "recreational" courses, eliminated the foundation program, reestablished tax rate controls in place of the revenue ceilings for the community colleges, and based state aid on 1975-76 levels adjusted for growth and inflation. A modified version of this proposal was incorporated in AB 2790 (Montoya), which, while eliminating the "cap," was to hold state support to no more than a modest increase over what it would have been if the "cap" were retained. It also included, however, an equalized 6 percent annual increase for inflation.

When it became apparent that none of these proposals could command sufficient support to ensure its passage, attention turned to a series of amendments to AB 2790 that were advanced by community college representatives. These amendments softened the tax rate control, eliminated language about job market data and "recreational courses," and added support for small districts and districts serving major urban centers, thereby adding enough state money to win the support necessary for passage. In the final days before the Legislature's July recess, AB 2790 was amended into SB 1641, the surviving elementary and secondary education finance measure, which was finally passed by the Legislature on July 1 and signed by the Governor.

In its final form, SB 1641 made a number of fundamental changes in state and local support for community college current expense. In place of the foundation program and the "cap" on state aid imposed a year earlier, it substituted a somewhat more complicated formula providing a partially equalized allowance for existing enrollment, a separate computation for enrollment growth using the statewide average rate of state aid, a "demographic" factor intended to benefit urban districts, and a six percent inflation factor. One major consequence of these changes was to break the link between assessed valuation and total state aid that was fundamental to the foundation program. In addition, SB 1641 eliminated the distinction between adult and nonadult ADA and expanded the allowance for small districts to include those of up to 3,000 ADA. It also established controls over the growth in district tax rates and authorized districts to charge students for classes not eligible for state aid.

These provisions and their probable effect on state and local support are discussed in detail in the following section.

SECTION 2

CHARACTERISTICS OF THE PRESENT SYSTEM OF SUPPORT FOR CURRENT EXPENSE

The California Community Colleges draw upon five sources of income for support of their current operations. The two most important sources are district revenues and state support, which together provided 89 percent of total community college income in 1975-76. The three other sources are county contributions, federal aid, and student charges. Table 3 shows the total income from each of these sources for the three years 1973-74 through 1975-76.

Table 3: Summary of Support for Community College Current Operations, 1973-74 through 1975-76 (in Millions)

Source	1973-74	1974-75	1975-76
State Support	$ 350.8	$ 431.6	$ 494.6
District Support	419.2	472.5	516.1
County Funds	16.3	17.6	21.6
Federal Aid	52.0	66.2	90.4
Student Fees	9.0	15.3	18.5
TOTALS	$ 847.3	$1,003.2	$1,141.2

Sources: Annual Financial and Budget Reports of the California Community Colleges and the Governor's Budget.

State Support

In 1975-76, the state provided a total of $494.6 million for the support of community college current operating expenditures through general and special apportionments, tax relief payments, and appropriations to the Board of Governors. The greater part of this total, $385.2 million, was provided through the general apportionment formula contained in the Education Code. The remainder, as shown in Table 4, consisted of $20.2 million in apportionments for special education, teachers' retirement, and other purposes, $64.9 million in tax relief payments, $7.2 million for the Extended Opportunity Programs and Services, $13.3 million in other district aid, and $3.8 million for support of the Board of Governors and the Chancellor's Office.

Table 4: State Support for the California Community Colleges 1973-74 through 1975-76

Purpose	1973-74	1974-75	1975-76
Aid to Districts:			
Apportionments:			
Basic and Equalization Aid	$275,559,057	$334,190,654	$385,182,987
Special Education	2,010,540	2,023,701	6,799,217
State Teachers Retirement	4,106,649	4,827,651	6,321,007
Other Apportionments	326,370	398,472	7,090,412
Subtotal, Apportionments	$282,002,616	$341,440,478	$405,393,623
Property Tax Relief:			
Business Inventory Tax Relief	$ 12,626,105	$ 16,614,720	$ 19,822,145
Homeowners Property Tax Relief	37,041,870	39,282,167	42,629,543
Other Tax Relief	1,177,036	1,558,249	2,461,224
Subtotal, Tax Relief	$ 50,835,011	$ 57,455,136	$ 64,912,912
Extended Opportunity Program	$ 6,170,500	$ 6,170,500	$ 7,195,519
All Other Aid to Districts	9,536,888	23,663,399	13,363,454
Subtotal, Aid to Districts[1]	$348,545,015	$428,729,513	$490,865,508
State Administration:			
Board of Governors	$ 2,228,475	$ 2,895,960	$ 3,767,624
TOTALS	$350,773,490	$431,625,473	$494,633,132

1. Total state support deposited in district general funds as reported for Controller's report.

Sources: Governor's Budget, Department of Finance; Financial Transactions Concerning School Districts in California, State Controller; District Budget and Financial Reports.

For 1976-77, it is estimated that state support will increase to $580 million, of which $450 million will be provided through the new general apportionment formula established by SB 1641 of 1976. Special apportionments are expected to amount to about $40 million, tax relief payments $70 million, and all other support, including statewide administration, approximately $20 million.

General Apportionments

As noted in the preceding section, the general apportionment formula, by which state support is appropriated from the State School Fund to the community college districts, was substantially rewritten by SB 1641 of 1976. Although it is not without several complicating features, the new apportionment formula is not as complex as it may appear in statutory form.[1] The new formula provides that each district's apportionment will consist of two parts. The first, in the case of each district that experiences some growth, will be its allocation for the preceding year plus the product of that sum multiplied by a 6 percent inflation factor and an equalization factor. This sum is then adjusted by a "demographic" factor. The combination of these three factors could raise a district's basic allocation by a maximum of 12.3 percent in 1976-77. The second part is the product of the district's growth in ADA and the statewide allocation per unit of ADA for the preceding year, the latter adjusted by the same inflation and equalization factors used to compute the first part. The sum of the two parts is the district's principal state apportionment for that year. The 1976-77 payment per ADA is expected to average $592, but in no case will it be less than $125.

If community college enrollment follows recent projections, however, some districts will lose ADA from one year to the next through the 1980s. The allocation for such districts will be their allocation for the preceding year, reduced proportionately for the enrollment loss, and then increased, as in the first part of the basic formula, by the inflation, equalization, and demographic factors.

The equalization factor that is used in both cases is simply the ratio of each district's assessed valuation per ADA to the statewide assessed valuation per ADA (estimated to be $126,445 for 1976-77). That is, a district of average wealth will have an equalization factor of 1.0, a district of below average wealth will have an equalization factor of more than 1.0 (up to a maximum of 2.0), and a district of above average wealth will have an equalization factor of less than 1.0.

The demographic factor is somewhat more complicated. Each district's demographic factor is calculated by first determining the ratio of

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1. The new formula is shown as an equation in Appendix C.

the estimated resident ADA of all districts as a percentage of the total adult population for all districts to the district's estimated resident ADA as a percentage of the total adult (noninstitutional) population of the district.[2] This produces what is now called the district's "C" value. The demographic factor for districts with a "C" value below the median "C" value for all districts is 1.0. The demographic factor for districts with a higher "C" value will be equal to 1.0 plus the product of that "C" value and a multiplier (0.0171 for 1976-77) that will result in the allocation of an additional $4,000,000. The result of these calculations for 1976-77 is a range of "C" values from .45 to 1.5 (the maximum allowed) and demographic factors of from 1.0 to 1.02565.[3] A district with a demographic factor of 1.0 receives no additional aid.

Although the demographic factor is derived from the relationship between district ADA and the adult population of the district, it is intended to be a means of providing additional aid to urban districts. This method was chosen because it was believed that large urban districts tend to have lower participation rates than do others. The calculations for 1976-77 indicate, however, that several suburban and rural districts will also benefit significantly from this provision and that several large urban districts will not.[4]

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2. The estimated adult population figures are to be provided by the Office of Population Research of the Department of Finance.

3. The "C" value and demographic factor for each district for 1976-77 are shown in Appendix B.

4. Some examples of "C" values and the resulting demographic factors for 1976-77 are:

District	"C" Value	Demographic Factor
Lake Tahoe	1.50	1.02565
Los Angeles	1.50	1.02565
Santa Clarita	1.31	1.02240
San Jose	1.30	1.02223
Marin	.99	1.01693
San Francisco	.98	1.01676
Long Beach	.89	1.00000
Chaffey	.87	1.00000
San Diego	.85	1.00000
Merced	.56	1.00000
Allan Hancock	.55	1.00000

Another major change in the new legislation is the elimination of the distinction between "adult" and other students in counting units of ADA. The distinction was originally adopted in 1954 in an attempt to distinguish between the cost of instruction for adult students and that for all other students. The distinction has never been very popular, however, because adult students--defined as students over the age of 21 taking less than 10 hours per week--are as costly to instruct in regular graded classes as are other students. It is the type of class rather than the type of student that has the greater influence on instructional costs. For this reason, there has been steadily mounting pressure to eliminate the distinction, an action that until this year seemed blocked by the probable cost to the state of doing so under the foundation program system of support.

All ADA for students who reside in a district other than the one in which they are enrolled must be reported by the district of residence rather than the district of attendance. Districts are also prohibited from counting for state apportionments: the ADA for classes supported in any part by student fees; the ADA for students enrolled in classes for which the district is fully compensated from some other public or private source; the ADA for classes in facilities that are not clearly identified to the public as ones in which community college classes are offered (excluding classes for handicapped adults and classes in state hospitals); and the ADA for noncredit classes in recreational physical education, recreational dancing, and military courses offered only to military personnal and conducted on military bases. Otherwise, the new legislation makes few changes in the manner in which enrollment is to be counted. The census weeks remain unchanged, as does the manner of converting census week ADA to estimated annual ADA, except that a new conversion factor has had to be chosen to replace the two factors (one for "adults" and one for other ADA) previously used.

Except as noted above, the districts may count all ADA for noncredit as well as credit classes.[5] Effective July 1, 1977, however, the districts are to receive state aid only for ADA in those noncredit classes that by mutual agreement by state and local officials are the responsibility of the community colleges. In place of the state aid that may be lost, the districts may provide support from district revenues, provided they do not exceed their tax ceilings. The districts are also authorized to charge fees for any classes that are not eligible for state support, provided that the total revenue from fees and other sources does not exceed the estimated cost of all such classes.

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5. Throughout the remainder of this report, the term "credit classes" is used in place of and as a synonym for the terms "graded classes" and "regular classes," and the term "noncredit classes" is used in place of and as a synonym for "ungraded classes" and "classes for adults."

There are two further aspects of the new formula that should be understood. The first is that apportionments for districts with 3,000 or fewer ADA will be calculated according to a special formula that adds "a small district multiplier" to the basic district formula. This multiplier is intended to reflect the higher unit costs experienced by such districts. The second is that the calculations described here concern resident ADA--that is, ADA for students who reside in the district. All other ADA will be supported at the basic rate of $125 per ADA. Districts that accept students from other districts or from nondistrict territory may bill the other districts or the counties in which the nondistrict territory is located to cover the full cost of enrolling those students.

Special Apportionments

As noted earlier, there are several categories of special apportionments to the community colleges in addition to the general apportionment. Together they provided a total of $20.2 million in support for special education, teachers' retirement, and other purposes in 1975-76.

Special Education:

Apportionments for special education (education for physically, mentally, and educationally handicapped students) by the community colleges amounted to $6.8 million in 1975-76 and are expected to rise to an estimated $9.4 million in 1976-77. AB 77 of 1976 consolidated a number of different special apportionments for handicapped students and raised the maximum allowance from $400 to $785, or double that amount in the case of "severely disabled" students. This money is distributed as flat grants to each district to cover the "excess direct district cost" of providing special facilities, special educational material, educational assistance, mobility assistance, transportation, and program development services for handicapped students. There is no equalization factor associated with this aid.

Teachers' Retirement:

For many years, the state has contributed to the State Teachers Retirement System for community college faculty just as it has for teachers employed by the public schools. The state's contribution takes two forms: (1) apportionments to the community college districts to assist them in making the employers' contributions required by statute, and (2) a direct appropriation to supplement the contributions of employers and employees so that the fund may meet its liabilities over the years. The direct contribution is a flat $135 million per year for all covered school employees, but the portion attributable to community college faculty is not identifiable. The apportionments to community college districts for their

employers' contributions is now determined by the provisions of SB 1641, which modified the existing foundation program for this purpose. For 1976-77, the foundation amount is $32 per ADA, increasing to $40 per ADA in two years. The district share of this amount is the revenue produced by a tax rate set at $ .016 for 1976-77 and rising to $ .020 in two years. The balance of the foundation amount is to be provided by the state. For 1976-77, the state share is expected to be approximately $11 million.

Other Apportionments:

Other special purpose apportionments for 1975-76 included $2.1 million to replace revenues from the community college tuition tax owed by newly annexed territories, $3.9 million for instructional television, and $1.1 million for adjustments to previous apportionments because of enrollment changes, for a total of $7.1 million. For 1976-77, these special purpose apportionments are expected to reach $18.5 million, of which $17.5 million is for newly annexed territory. The amount for newly annexed territories is unusually high as a result of the relatively large number of annexations that became effective July 1, 1975 and 1976.

Property Tax Relief Payments

In company with California's cities, counties, and public schools, the community colleges now receive a substantial amount of state support in the form of property tax relief payments. These payments totalled $64.9 million in 1975-76 and are expected to reach $70 million in 1976-77.

These tax relief payments are to reimburse the community college districts for property tax revenues lost as a consequence of the Homeowners Property Tax Relief Program, the Business Inventory Tax Relief Program, the Williamson Land Act, and other property tax reductions and exemptions enacted by the Legislature. Inasmuch as the exemptions apply to all property within each county and affect all local jurisdictions that are supported in some part by property tax revenues, the payments first go to the counties, which then distribute the money according to the tax rates levied within each district.

Although these payments have been established by the provisions of the tax relief measures enacted by the Legislature, the amounts that each district receives is determined by the district's budget and the local tax rate levied to provide the property tax revenue required by that budget. Thus, although reported by the districts as state aid, these payments might also be considered as district revenues that are derived from the state tax base.

Budget Act Appropriations

At present, there are only two components of state support for the community college current expense that are appropriated through the annual budget acts. They are support for Extended Opportunity Programs and support for the Board of Governors.

Extended Opportunity Programs and Services:

The Extended Opportunity Programs and Services (EOPS) is the sole categorical aid program supported through budget act appropriations. The appropriation for 1976-77 was $11.5 million, which will provide financial aid, tutorial services, remedial courses, and peer counseling programs for more than 40,000 community college students. Each college that participates in EOPS is required to submit a project application for approval by the Board of Governors, which then ranks the projects for funding. The money must be used to help full-time students with family or personal incomes of $6,000 or less, but otherwise the colleges have considerable latitude in deciding how the aid is to be spent.

Board of Governors:

The Board of Governors of the California Community Colleges received an appropriation of $4,008,373 in state support for 1976-77, of which $450,000 is for its teacher credentialing functions and the balance for statewide planning, coordination, and administrative activities carried out through the Chancellor's Office in Sacramento.

District Support

The principal source of district support for the community colleges is, of course, the district property tax, as shown in Table 5. Relatively minor amounts of additional income are derived from city and county taxes, sales (food services, publications, land and buildings, etc.), rentals and leases, contract services, and interest earnings.

District Taxes

Each community college district is authorized to obtain support from a general purpose tax and several "permissive" taxes levied against the property tax rolls of the district. In effect, these tax rates are determined when the district board decides on the general and special fund budgets for the year. According to state law, however, the budgets must be transmitted to the county superintendents of education and then to the county boards of supervisors, which calculate the tax rates that will produce the revenues budgeted by the districts.

Table 5: District Support for the California Community Colleges, 1973-74 through 1975-76

Source	1973-74	1974-75	1975-76
District Taxes	$384,874,851	$439,925,185	$487,796,022
Sales, Rentals, Interest	12,869,600	24,448,700	20,924,140
Other District Income	21,449,397	8,164,999	7,370,725
Totals	$419,193,848	$472,538,884	$516,090,887

Source: Annual Financial and Budget Reports of the California Community Colleges

Prior to 1973, the general purpose tax rate, which is the principal source of local support, was limited to a maximum of $ .35 per $100 of assessed valuation, except in cases in which the district electorate had agreed to a higher rate by a majority vote. SB 6 of 1973 eliminated this tax rate limit, replacing it with a revenue limit, as discussed in the preceding section. The purpose was the same--to limit the authority of local boards to raise property taxes through increased spending without the explicit approval of district voters--but it was to be accomplished by limiting the level of spending per unit of ADA rather than the general purpose tax rate.

This system of revenue limits has now been replaced, under the provisions of SB 1641, by a form of tax rate control somewhat similar to that in effect prior to 1973. SB 1641 provides that the maximum general purpose tax rate that a community college district may levy in 1976-77 and thereafter is the greater of either:

(1) The general purpose tax rate that the district was authorized to levy (whether or not it was actually levied) in 1975-76, after adjustments for certain estimating errors, or

(2) The district's actual 1975-76 general purpose tax rate adjusted upward to provide revenue increases proportionate

to any increase in the adult population of the district and the increase in the index of governmental prices for each year thereafter.[6]

Thus when a district reaches the ceiling in effect in 1975-76 (its authorized tax rate for that year), its tax rate may be increased only in proportion to district adult population growth and inflation as measured by the increase in governmental prices.

The mean general purpose tax rate for 1975-76 was $ .6050, and the range was from $ .3500 (Compton) to $1.0326 (Barstow). Altogether, these general purpose rates yielded a total of $487.8 million, or 42.8 percent of total community college income for 1975-76. For 1976-77, the mean general purpose tax rate is $ .6377 and the range is from $ .3600 (Lassen) to $1.2242 (Barstow).

In addition to the general purpose tax rates, the Education Code authorizes the community college districts to raise money for current operations for four special purposes through special tax rates. These special purpose tax rates and their statutory limits are:

(1) Earthquake Safety - A maximum of $ .10 to pay for expenses associated with measures necessary to comply with earthquake safety standards.

(2) Community Services - A maximum of $ .05 to support community forums, lecture series, recreational classes, and other services to the local community.

(3) Child Development - A tax rate without statutory limit to help support campus child care centers.

(4) Development Centers - A tax rate without statutory limit to help support campus child development centers for handicapped children.

Sales, Rentals, Interest and Other District Income

In 1975-76, the community college districts also raised $28.3 million from sales, rental income, interest earnings and a variety of other sources. The individual sources are not shown in the district financial reports, but it can safely be assumed that interest earnings on district funds deposited with the county treasurers accounted for a very substantial portion of this income.

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6. For 1976-77 only, districts that annexed territory effective July 1, 1976, shall calculate the amount of property tax revenue received during 1976-77 so that the revenue per ADA is equal to the revenue limit per ADA that would have been authorized under SB 6 or as calculated under the new law.

County Support

Payments to community colleges from county funds, as shown in Table 6, amounted to $21.6 million in 1975-76, or about 2 percent of their total current income. The principal source of these payments is the community college tuition tax on territory that is not included in a community college district. Each county that contains such territory is required to levy a tax on the property in the non-district territory sufficient to cover: (1) the current expense of education for all community college students from that territory, less state and federal aid; (2) transportation costs, if any, for those students; and (3) $300 per unit of average daily attendance for capital outlay. This revenue is apportioned to the appropriate community college districts by the county superintendents of schools. The income received by the districts from this source for current expense and transportation costs is normally deposited in the district's general funds. Income from the $300 ("seat tax") payment per ADA must be deposited in the districts' special reserve or bond interest and sinking funds for capital outlay. (The amount shown in Table 6 includes only the income to district general funds.)

Income from the community college tuition tax has grown relatively slowly in recent years as a consequence of state efforts to reduce the amount of territory that remains outside any community college district. As the most recent district formation and annexation actions take effect, this income may be sharply reduced, but there

Table 6: County Support for Community College Current Expense, 1973-74 through 1975-76

Source	1973-74	1974-75	1975-76
Tuition Payments[1]	$11,377,259	$12,568,754	$16,047,494
Equalization Aid	3,685,001	3,632,346	3,449,883
Offset Tax	3,685,001	3,632,346	3,449,883
Other County Support	1,241,296	1,372,568	2,085,710
Totals	$16,303,556	$17,573,668	$21,583,087

1. Community college tuition tax. Excludes income from $300 "seat tax," which must be spent for capital outlay.

Source: Annual Financial and Budget Reports of the California Community Colleges

will be an offsetting increase in income from district property taxes.[7]

Another source of income from the counties is the equalization aid offset tax. This tax is levied against all of the property of a county to offset any loss in revenue to public school and community college districts that occurs when, in accordance with state law, the county's assessed valuation is adjusted upward to conform with the statewide average assessment level. If the increase in assessed value results in a loss of state equalization aid for the affected community college districts, that loss must be recovered by an increase in property taxes through the equalization aid offset tax.

Other county support consists of royalties, income from rentals, payments in lieu of taxes, income from property not subject to taxes, and other minor sources of income.

Federal Aid

The California Community Colleges received a total of $90 million in federal aid in 1975-76, or about 8 percent of their income from all sources for current operations. Federal aid doubled over the period from 1972-73 through 1975-76, largely as a consequence of federal expenditures under the Higher Education Act of 1965, the Economic Opportunity Act, Revenue Sharing, and a number of lesser programs. The amounts received by the districts for each major program or purpose during the past three fiscal years are shown in Table 7.

Maintenance and Operations (PL 81-874)

For many years, the federal government has provided financial assistance for the maintenance and operation of educational facilities in school districts, including community college districts, affected by federal activities. Payments are made for two purposes: (1) to replace local revenues that are lost as a result of federal acquisition of real property in the districts and (2) in consideration of the enrollment of students whose parents work or reside on federal property or are on active military duty in the district. This aid has declined somewhat in recent years as a result of efforts by the federal government to cutback this general "impact aid" in favor of

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7. As the tuition tax is levied to cover the costs of the previous year's enrollment, the state steps in to pay the equivalent of the amount due for the first year after the formation of a new district, or the annexation of the territory to an existing district, so as to avoid placing a double burden on the new district territory.

Table 7: Federal Aid for the California Community Colleges, 1973-74 through 1975-76

Source	1973-74	1974-75	1975-76
Maintenance and Operations	$ 1,836,074	$ 1,362,089	$ 1,307,581
Veterans Education Act	3,141,932	4,928,558	5,681,878
Public Services Development and Training Act	--	583,598	366,034
Economic Opportunity Acts	5,841,129	5,845,556	7,176,848
Employment and Training Acts	--	3,746,619	7,126,465
Higher Education Acts	1,302,631	7,701,900	15,251,014
Revenue Sharing	--	2,729,165	3,691,492
Military Personnel Development	--	--	262,786
Vocational Education	15,550,558	18,281,552	16,511,724
Forest Reserve	5,841,129	943,007	529,079
Other[1]	20,566,384	20,091,585	32,447,951
TOTALS	$51,967,651	$66,213,629	$90,252,852

1. Includes income reported as "State and Federal Aid" because exact source is not known by district.

Source: Annual Financial and Budget Reports of the California Community Colleges.

categorical support for other purposes. For 1975-76, 26 districts reported receiving a total of $1.3 million from this source, with the largest amounts reported by San Diego ($209,533), Ventura ($152,956), and Allan Hancock ($117,495).

Veterans Education Act (PL 92-318)

All but five community college districts reported income in 1975-76 from this program, which was established in 1972 to encourage colleges and universities to serve the special needs of Vietnam-era veterans. This aid is also referred to as Veterans' Cost-of-Instruction Payments. Initially, the aid was to be used primarily to establish and maintain on the campuses full-time offices of veterans' affairs to provide outreach, counseling, recruitment, and special

education programs. But now up to 50 percent of this aid, which totalled nearly $5.7 million in 1975-76, may be used to cover the cost of academically related programs.

Public Service Development and Training Acts (PL 90-351, 90-490, 92-158, 88-581, 89-751, 92-38, and 78-410)

Several federal programs provide assistance for the development of curricula and instructional materials and for student loans in such fields as criminal justice education and nurse training. Seven districts reported a total of $366,034 from this source in 1975-76. One district, Los Rios, received $263,316, or more than two-thirds of the total.

Economic Opportunity Act (PL 88-452)

Forty-three districts reported a total of $7.2 million in payments in 1975-76 from the Economic Opportunity Act, with the largest amounts received by San Joaquin Delta ($706,196), Los Rios ($623,474), Chaffey ($492,278), and Sonoma ($453,158). These payments are received by the districts through the Concentrated Employment Program for the support of locally developed manpower projects that provide recruitment, counseling, job training, and related supporting services.

Employment and Training Acts (PL 92-54 and 93-203)

In 1975-76, 43 community college districts received a total of $7.1 million to develop and maintain "human resources educational programs" to strengthen the technical abilities of state and local employment and training personnel. Most of this money is provided through the Comprehensive Employment and Training Act and the Emergency Jobs and Unemployment Assistance Act. The districts receiving the largest payments were San Diego ($1,339,102), Kern ($1,138,605), and Foothill ($447,770).

Higher Education Act (PL 89-329)

The Higher Education Act of 1965, as amended, provides federal aid for vocational education, instructional equipment, student financial aid, development of instructional programs, and other purposes. For 1975-76, 52 community college districts reported a total of $15.3 million in such aid.

Revenue Sharing (PL 92-512)

Five community college districts reported receiving a total of nearly $3.7 million in general revenue sharing funds in 1975-76. These funds are available to the community colleges to support the development or expansion of training programs for occupations related to the

management, operation, design, supervision, or maintenance of solid waste disposal and resource recovery equipment and facilities.

Military Personnel Development

Three districts reported receiving payments in 1975-76 for military personnel development. The total amount reported was $262,786, of which $179,934 was received by Sonoma County Community College District.

Vocational Education and Rehabilitation Acts (PL 90-576)

This was the largest single source of federal aid reported for 1975-76. Federal vocational education and rehabilitation programs provided a total of $16.5 million to the California Community Colleges to support the development and operation of vocational education programs, the development of curricula and instructional materials, personnel training, work-study aid, and other related activities. All but two districts reported some income from this source, with the largest amounts reported by Los Angeles ($1,900,928), San Diego ($788,113), Ventura ($574,820), Los Rios ($550,518), and Orange Coast ($528,594).

Forest Reserve Funds

Twenty-three districts received aid from this source in 1975-76. Income from forest reserve funds is apportioned by the federal government to the counties for allocation to the public school and community college districts by the county superintendents of schools. The largest allocations were reported by Lassen ($138,989), Siskiyou ($99,608), Shasta-Tehama-Trinity ($88,173), and Peralta ($98,857).

Other Federal Aid

Other federal aid includes payments under the Educational Professions Development Act (PL 90-35), the Elementary and Secondary Education Act (PL 89-10), the National Defense Education Act (PL 85-864), and several other federal programs that are not separately identified in the annual financial reports submitted by the districts to the Chancellor's Office.

Student Charges

Student fees and other student charges have never been a major source of income for the community colleges, in keeping with the widely accepted belief that there should be no significant financial barrier to enrollment in community college classes. No tuition is charged California residents enrolled in credit courses, and fees for ancillary services have been held to minimal amounts. Only students from

other states or countries and, in some districts, those enrolled in classes that serve predominantly recreational needs are required to pay fees of any consequence. Thus, income from student fees and other charges for 1975-76 amounted to only $18.5 million, or less than two percent of the total income for current operations from all sources. Approximately half of this income came from nonresident tuition, as shown in Table 8.

Table 8: Community College District General Fund Income from Student Fees and Other Charges, 1973-74 through 1975-76

Fee or Charge	1973-74	1974-75	1975-76
Adult Education	$3,683,743	$ 3,682,872	$ 3,640,412
Nonresident Tuition	4,978,625	7,456,596	9,255,572
Health Fees	- [2]	1,843,697	2,379,446
Parking Fees	- [2]	1,194,826	1,361,696
Late Registration Fines, Parking Fines, etc.	313,453	1,041,516	1,790,742
Child Care Services[1]	- [2]	123,834	52,773
TOTALS	$8,975,821	$15,343,341	$18,480,641

1. Income from fees for campus children's centers and developmental centers for handicapped children. Most districts deposit this income in separate Child Development Funds.

2. For 1973-74 the districts did not identify income from health, parking, or child care fees to their general funds.

Adult Education Fees

Prior to enactment of SB 1641, community college districts were authorized to charge adults tuition for noncredit classes (classes for adults), excluding only classes in English and citizenship for noncitizens, classes in elementary subjects, and classes leading to high school diplomas for students without diplomas. SB 1641 and AB 2790 eliminated this provision and substituted authorization to charge tuition for any class that is not eligible for state support. Intentionally or not, this largely eliminated any incentive for most districts to charge tuition for noncredit classes that are open to all students since all such classes are eligible for state aid.[8] Thus, it is likely that income from adult education fees will drop precipitously in 1976-77.

8. Previously, adult education fees were collected to supplement the lower level of state aid provided for such classes.

A survey of the districts by the Chancellor's Office in the Spring of 1975 indicated that 38 of 69 reporting districts charged adult education fees ranging from $1 per semester to $15 per course. Forty-eight of the 70 districts reported some income from adult education fees in 1975-76 in their year-end financial reports.

Nonresident Tuition

Community college districts are also authorized to charge tuition for nonresident students (students from other states and countries). The fee may be equivalent to the level of current expenditures from all sources for the preceding year divided by that year's ADA or average statewide expenditures per ADA for credit classes. Foreign students and students taking less than six units may be exempted but only if all such students are exempt. Otherwise, part-time nonresident students are to be charged a per-unit equivalent of the fee charged full-time students. For 1975-76, all but two districts reported some income from this source.

Health Fees

The districts may charge a fee of not more than $10 per student for the regular school year for student health services. They are required, however, to exempt low-income students or provide for the payment of their fees from some other source (financial aid). Persons who depend exclusively on prayer for healing and students enrolled in apprenticeship training programs are also to be exempted. Thirty-three of the districts reported income from health service fees in 1975-76.

Parking Fees

A fee of no more than $20 per semester or $40 per year may be charged students who use campus parking spaces. In 1975-76, 19 districts reported a total of nearly $1.4 million in revenue from parking fees.

Children's Centers Fees

Community colleges that operate campus child care centers must charge fees based on a schedule established by the State Department of Education for other state-supported child care services. A few districts report income from this source as general fund income, but the majority deposit such income in a special Child Development Fund.

Other Charges and Fines

The districts are authorized, in addition, to charge small amounts for program changes and late applications. They also receive small amounts of income from parking and library fines. In all probability, the figure of $1.8 million reported for 1975-76 greatly exaggerates actual income from these sources as a result of reporting errors.

SB 1641 made no important change in community college student fees other than those regarding fees for students who were previously defined as adults and fees for noncredit classes. In the absence of any further changes, student fee income is likely to continue to grow at a very moderate rate, probably more slowly than income from all other sources.

SECTION 3

DEFICIENCIES OF THE PRESENT SYSTEM OF SUPPORT FOR CURRENT EXPENSE

It is too soon to attempt to evaluate in detail the new financing system established by SB 1641. This year, 1976-77, is the first year of apportionments under the new system, and it will not be possible to judge its full impact until the apportionment process is completed and district income and expenditure figures for the year are recorded. Nevertheless, we believe that it is possible to examine the principal features of the new system, together with the level of support it appears likely to provide over the new few years, against a set of commonly-held expectations as to what the community college financing system should accomplish.

These expectations are closely related to the historical development of community college support and also reflect the fiscal problems now confronting the state and the local districts. They are related to the broader objectives for postsecondary education in California that have been identified in the policy statements of this Commission, the Legislature, the Governor, the Board of Governors of the Community Colleges, and the other interested agencies and organizations. These expectations are:

1. The community colleges should receive sufficient support to ensure that they are able to continue to make a maximum contribution toward fulfilling the educational needs and aspirations of all adult Californians;
2. There should be equalization of the tax burden among the community college districts and for all persons throughout the state who must pay property taxes;
3. State and local revenues should be derived from a balanced tax base that will continue to provide the necessary resources for the community colleges in the future;
4. The cost to students should be minimal so as not to be a barrier to any student who wishes to pursue an accredited course of academic or vocational studies offered by a community college;
5. The system of support should permit and encourage effective local administration of the community colleges, including the ability to plan, to respond to legitimate local demands, and to make the best use of all available resources;

6. The system of support should permit and encourage effective state management of its fiscal responsibilities and contain no incentives for excessive growth or cost escalation; and

7. The system should be sufficiently flexible to accommodate changing circumstances without requiring an extensive overhaul every few years.

Not all of these expectations are shared by every agency and organization or given the same weight. Resource allocation decisions are predominantly political decisions and, therefore, cannot satisfy every interest or remain unchallenged for long. Yet these are the general outcomes that are now commonly expected of the community college financing system and against which the new system may be measured.

Expectation #1:

> *The community colleges should receive sufficient financial support to ensure that they are able to continue to make a maximum contribution toward fulfilling the educational needs and aspirations of all adult Californians.*

Very simply, this expectation is that the system of support will provide sufficient income from all sources--state support, local tax revenues, federal aid, and student charges--to make it possible for the community colleges to continue to offer a full range of academic and vocational instruction within their area of responsibility as part of the state's larger system of postsecondary education. They must be assured the resources necessary to permit them to enroll all qualified and responsible students and to maintain the quality of instruction expected by the people of this state.

There are many ways in which this expectation can be met, but it cannot be met by arbitrary ceilings on state or local support, expenditure limits that lag behind costs, or enrollment estimates that are likely to fall below actual experience. Although it is extremely difficult, if not impossible, to equate any specific level of support with an optimal quality of instruction for all eligible students, it is evident that a level of support that does not take into account rising prices, basic instructional costs, necessary supporting services, and actual enrollment changes will force the community colleges to restrict enrollment, eliminate courses, or lower the quality of instruction.

There is no single measure that can be used to determine the extent to which this expectation has been met in the past. There is considerable evidence, however, that the level of support since 1960 has been sufficient to enable the community colleges to carry out the responsibilities outlined for them in the Master Plan and subsequent state policy statements. Over the past 15 years, state support alone has increased from $28.4 million, or about two percent of the state's General Fund expenditures, to $494.6 million, or about five percent of state General Fund expenditures. As a result of comparable increases in local support, total community college current expenditures have risen from $103 million to $957 million from 1960-61 through 1975-76.

In this same period, enrollment, as measured in units of average daily attendance, has risen from 182,378 to 768,902, and the total full-time and part-time enrollment has risen from 340,049 to 1,275,000, substantially surpassing the Master Plan enrollment projections. Total current expenditures per ADA, moreover, have risen from $565 to $1,250, which is more than the rise in prices (as measured by the California Consumer Price Index) during this period.[1]

Additional evidence is to be found in the size of the year-end balances reported for district General Funds in recent years. As shown in Table 9, those balances jumped from $137.4 million to $208.1 million following enactment of SB 6 in 1973 and grew to $250 million, or 26 percent of reported expenditures, by 1975-76. Although a few districts reported relatively small balances and others rely on these balances as a major source of capital outlay support, for the majority of the districts the size of these balances suggests that they are enjoying very good financial health at this time.

Thus it is apparent that the general level of support has been more than adequate to provide for rapidly growing enrollment and expanding programs. With the sharp increase in state support in 1973, which has been maintained under the provisions of SB 1641, the California Community Colleges appear to be on a strong financial base relative to other state and local services.

There is, however, one major flaw in the new formula in this regard that, if not corrected, may have serious consequences for many districts. As noted in the preceding section, districts that lose ADA from one year to the next receive proportionately less state support. This means that low-wealth districts will lose a relatively large

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1. When adjusted for the rise in the California Consumer Price Index, the increase in total current expenditures per ADA is from $640 to $788.

amount of state support per ADA, and high-wealth districts will lose relatively small amounts per ADA. Thus, high-wealth districts are likely to have little difficulty adjusting to enrollment losses, but low-wealth districts that receive substantially more than 50 percent of their current support from state apportionments are likely to face serious difficulties.

It is seldom possible for a college with declining enrollment to reduce its expenditures each year in proportion to its enrollment loss. Staffing reductions and reductions in many fixed and indirect costs usually cannot be made as quickly as enrollment losses are recorded. As a result, unit costs tend to rise, if only temporarily. Thus the new formula, which does not take this problem into account, places an especially heavy burden on low-wealth districts that lose enrollment.

This might not be an important problem if the community colleges were continuing to grow as apparently they were expected to grow when SB 1641 was enacted. Preliminary enrollment data for 1976-77, indicate, however, that a majority of the districts may lose enrollment this year and that several low-wealth districts may be among those that lose the most. It seems clear, therefore, that some method must be found to reduce the impact of those losses.

The Chancellor's Office, has identified several additional elements of the new system that it believes may result in an inadequate level of support for the colleges in the future. The principal objection in this regard appears to be that:

> SB 1641 . . . provides little incentive for developing new programs and services. In fact, the new system was designed to deter growth primarily by imposing tax rate controls on local revenue. Unless property valuations increase at rates higher than those for inflation plus enrollment growth, program quality may decline and community needs go unmet.[2]

In addition, the Chancellor's Office has questioned whether the annual six percent inflation adjustment in state support will be sufficient to meet actual price increases.[3]

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2. Board of Governors' Agenda, December 8-9, 1976, Item #3, p. 32.

3. Ibid., Item #8, pp. 14-15.

Table 9: District General Fund Balances on June 30 Compared With Expenditures, 1969-70 through 1975-76 (In Millions)

Year	Balance June 30	Total Expenditures	Balance as % of Expend.
1969-70	$ 96.7	$346.8	27.9%
1970-71	114.1	469.2	24.3
1971-72	108.4	565.3	19.2
1972-73	137.4	622.5	22.1
1973-74	208.1	660.1	31.5
1974-75	237.9	795.3	29.9
1975-76	250.0	957.2	26.1

Source: Controller, State of California, Annual Report of Financial Transactions Regarding School Districts.

At present, the concern about the possible impact of the tax rate controls appears to be based more on conjecture as to what might happen in the future than upon recent experience and current projections. As shown in Table 10, the assessed valuation for community college districts has been increasing at an annual average of 9.7 percent over the past ten years, while enrollment growth has averaged 9.4 percent.[4] Inasmuch as community college enrollment growth is now expected to drop to less than three percent by 1980 and change to a decline from 1983 to 1985, there is good reason to believe that the growth in assessed valuation of the community college districts over the next ten years will be sufficient to accommodate both inflation and statewide enrollment growth.[5]

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4. The growth rate for assessed valuation would have been significantly higher during this period in the absence of the property tax exemptions enacted by the Legislature in 1969 and 1972. However, the reduced growth rate is offset by the increased property tax relief payments to the districts.

5. This is not to say that individual districts in areas of continuing rapid population growth may not experience some difficulty if they allow their cost per ADA to exceed the statewide average.

Table 10: Comparison of Growth Rates for Community College Average Daily Attendance and Assessed Valuation and State General Fund Revenues, 1966-67 through 1975-76

Year	Total ADA		District Assessed Valuation (Millions)[1]		State General Fund Revenues (Millions)	
	Number	% Inc.	Amount	% Inc.	Amount	% Inc.
1966-67	341,985	-	$34,665.2	-	$2,882.4	-
1967-68	377,574	10.4%	37,929.1	9.4%	3,678.1	27.6%
1968-69	418,805	10.9	43,290.8	14.1	4,128.7	12.3
1969-70	464,565	10.9	44,158.4	2.0[2]	4,327.3	4.8
1970-71	517,339	11.4	52,859.1	19.7	4,483.1	3.6
1971-72	552,208	6.7	56,191.8	6.3	5,388.1	20.2
1972-73	573,593	3.9	59,917.1	6.6	5,872.7	10.8
1973-74	609,459	6.3	64,142.2	7.1	6,688.4	12.0
1974-75	695,374	14.1	70,819.9	10.4	8,410.6[3]	25.7
1975-76	765,300	10.1	78,989.2	11.5	8,966.7[3]	6.6
Nine-Year Mean		9.4%		9.7%		13.7%

1. Modified for Collier factor. Excludes assessed valuation for unified school districts operating community colleges 1966-67 through 1969-70.

2. The adoption of major state tax relief measures resulted in less than normal growth in assessed valuation in 1969-70 and several subsequent years.

3. Estimated.

Sources: Controller's Report of District Financial Transactions; Governor's Budget.

Moreover, the new system of support provides for an adjustment in district tax rate ceilings to match increases in prices as measured by the national index of state and local government purchases of goods and services. This provision appears to protect the colleges from any erosion of their total support base that might otherwise result from continuing price inflation. It is true that state support is tied to a fixed six percent annual inflation adjustment and that there will be some erosion in state support if the prices the colleges must pay increase by more than six percent, but the alternative, which is to adopt a system of "indexing," introduces a policy question that goes far beyond the matter of state support for the community colleges.[6] Unless and until the state adopts a policy of "indexing," periodic adjustments in state support for the community colleges can be made whenever necessary to close any gap between the six percent allowance and actual price increases.

Expectation #2

> *There should be equalization of the property tax burden among the community college districts and for all persons throughout the state who must pay property taxes.*

Inasmuch as local property taxes are the principal sources of support for cities, counties, and the public schools in California, the community colleges, which grew out of the public school system, have relied upon local property tax revenue for the greater part of their current income from their beginning. Differences among the community college districts in size, taxable wealth, and college-going rates have resulted, however, in substantial differences in their ability to meet current operating costs from property tax revenues. Thus, since 1947, the state has not only provided supplementary support on a uniform basis--basic aid--to every district, it has also provided equalization aid for those districts for which basic aid, together with local revenues from what is considered to be a reasonable district tax rate, is not sufficient to meet minimum expenditure requirements.

The Serrano decisions of 1971, 1974 and 1976 have, of course, greatly increased efforts to find an acceptable solution to the problem of

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6. "Indexing" is the term commonly used to describe a system of tying the level of public expenditures to some index of prices so that the level of expenditure is not eroded by price increases.

equalization.[7] Although the courts have not dealt directly with the community colleges in this regard, it is entirely possible that what they have said about financing the public schools may apply as well to the community colleges. Certainly, the effects of the tax base disparities are essentially the same, whether or not community college education is a "fundamental interest," as the court found elementary and secondary education to be. Unfortunately, however, neither the courts nor those who have led the drive for more effective equalization policies have offered a positive measure of achievement that is easily applied. With regard to the public schools, Coons, Clune, and Sugarman in Private Wealth and Public Education state that "the quality of a child's schooling should not be a function of wealth other than the wealth of the state as a whole," but, as others have pointed out, this is a negative measure that is difficult to apply positively unless it is taken to mean that all public school revenue should be drawn from the statewide tax base.[8]

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7. In coming to its initial decision regarding the public schools, the California Supreme Court adopted the following line of reasoning. Since the schools derive a large part of their current income from local property taxes, the amount that they can raise and spend each year depends to a large degree on the size of the local tax base. There is, however, great variation in the local tax base from district to district, even when expressed as assessed valuation per unit of average daily attendance. As a consequence, residents of "poor" districts must pay much higher taxes than the residents of "wealthy" districts to spend the same amount for each child's education. Although state equalization aid tempers the disparity in taxable wealth among the districts, it still leaves a substantial variation in revenue-raising ability and, therefore, in spending ability. And as education is a fundamental interest of the state, this disparity violates the equal protection clause of the California Constitution. In upholding the subsequent decision of the trial court in a ruling announced December 30, 1976, the court reiterated its earlier judgment, saying:

> . . . so long as the assessed valuation within a district's boundaries is a major determinant of how much it can spend for its schools, only a district with a large tax base will be truly able to decide how much it really cares about education. The poor district cannot freely choose to tax itself into an excellence which its tax rolls cannot provide. Far from being necessary to protect local fiscal choice, the present financing system actually deprives the less wealthy districts of that option.

8. John E. Coons, William H. Clune, and Stephen D. Sugarman, Private Wealth and Public Education, (Cambridge, Mass.: Belknap Press), 1970, p. 7.

Thus, the best measure at this time appears to be the ability of each district to spend as much as any other district at any particular tax rate. This is a difficult measure to apply in the case of the community colleges, inasmuch as the range in general purpose tax rates actually levied is quite large (See Appendix B), and some of the revenue goes for capital outlay and other purposes, but it is one that goes directly to the matter of total revenue-raising ability, which is the heart of the equalization issue. By this measure, it appears that equalization has been reasonably effective among districts that have maintained expenditures per ADA substantially above that average.

The purpose of equalization aid under the foundation program system of support was to equalize the tax burden required to meet the minimum operating cost represented by the foundation amount. This was done by calculating the amount per ADA produced by a certain "computational" tax rate on each district's assessed valuation and then providing sufficient state support to make up the difference between that amount and the foundation amount. No attempt was made to equalize the tax burden resulting from expenditures above the foundation amount nor to require wealthy districts to contribute any "excess" revenue (according to the computational tax yield) to less wealthy districts. Nevertheless, as rising costs, rising prices, and continuing pressure to tie the foundation program to the statewide average expenditure pushed the foundation amount higher, equalization aid came to be the bulk of state support for the community colleges. In 1975-76, equalization aid amounted to 75 percent of total general apportionments.

Under the new state aid formula, however, equalization aid is not identified as such. Instead, as described earlier, the equalization aid received by each eligible district in 1975-76 (all but 5 districts, which are now covered by the new small district formula) is carried forward in its basic allocation for 1976-77. In addition, an equalization factor is applied against each district's allowances for price increases and its allowance for growth.

It is too soon to determine the precise effect of these provisions for 1976-77, but the 1975-76 data for assessed valuation per ADA, current expenditures per ADA, and general purpose tax rates suggest that a considerable degree of equalization had already been accomplished by the previous state support formulas. The assessed valuation per ADA for districts with at least 3,000 ADA ranged from $52,872 for Allan Hancock to $172,322 for Saddleback in 1975-76, for a ratio of 1:3.3. But the range in current expenditures per ADA for such districts was considerably less--1:2.2. At the low end was Antelope Valley, which spent $925 per ADA and had a general purpose tax rate of $ .4644 per $100 of assessed valuation. At the high end was Santa Monica, which spent $2,021 per ADA and had a general purpose tax rate of $ .6263. Clearly, if Antelope Valley's tax rate had been higher or Santa Monica's lower, the difference in current expenditures would have been much smaller.

Table 11: Comparative General Purpose Tax Rates and Current Expense per ADA for the Ten Districts with Highest and Lowest Assessed Valuation per ADA, 1975-76[1]

District	Assessed Valuation Per ADA	General Purpose Tax Rate	Current Expense Per ADA
High-Wealth Districts:			
Saddleback	$172,322	$.6846	$1,126
San Mateo	168,811	.6516	1,419
San Luis Obispo	161,805	.5700	1,309
Coachella	159,172	.8410	1,557
Los Angeles	146,636	.6226	1,272
Mean	$161,749	$.6740	$1,337
Low-Wealth Districts:			
Pasadena	$ 65,044	$.8174	$1,333
Citrus	60,097	.5588	1,199
Riverside	59,417	.4550	1,162
Coast	59,417	.7323	1,186
Allan Hancock	52,872	.4187	1,091
Mean	$ 59,639	$.5964	$1,194

1. Excludes districts with 3,000 ADA or less.

When the five districts with the highest assessed valuation per ADA, again excluding districts with less than 3,000 ADA, are compared with the five districts at the low end of the scale, as shown in Table 11, the impact of state equalization aid becomes even more apparent. Despite a difference of $102,110 in average assessed valuation per ADA between these two groups of districts, the difference between their average current expenditures per ADA was only $143, part of which was due to the fact that the average general purpose tax rate for the five wealthiest districts exceeded that for the five least wealthy districts by $ .0776.[9]

9. Even if Coachella with its very high rate were excluded from the high-wealth districts, the mean rate for the high rate districts would still exceed that of the low-wealth districts by $.0358.

Similar results are obtained when the districts are grouped according to their current expenditures per ADA, as shown in Table 12. There is a difference of more than $400 in average current expenditure per ADA between the highest and lowest groups in this example, but the second highest group spent, on average, only $240 more per ADA than the lowest group and did so by levying a higher general purpose tax rate against lower assessed valuation per ADA. For approximately two-thirds of the districts, there is a remarkably narrow range of difference in expenditures and tax effort.

Under the new formula, however, much of the equalization that has been gained in the past is likely to be lost. The reason for this is that the only amounts against which an equalization factor is applied are the inflation allowance and the allowance for growth, if growth occurs. The principal amount apportioned to each district is simply the amount that was apportioned to it in 1975-76. This amount was equalized in that year, but there is nothing in the SB 1641 formula to continue to make adjustments as the districts gain or lose assessed valuation per ADA. As a consequence, as some districts rise in assessed value per ADA and other districts fall because of different rates of change in enrollment and assessed property values, there will be a continuing erosion of equalization among the districts. In the absence of substantial growth for all districts, this erosion is likely to be very serious.

In addition to equalizing the property tax burden among the community college districts, the state has sought to equalize the community college property tax burden throughout the state by extending the tax base to all or nearly all of the taxable property within the state. Since 1960, the principal means to this end has been to encourage all but the most sparsely populated nondistrict areas of the state to either be annexed to existing community college districts or to form new districts.

This effort has been reasonably successful. As of July 1, 1976, part or all of the territory of ten counties--amounting to 20,514 square miles, or 13 percent of the state's total land area--remained outside any community college district. However, this area, which includes much of the Sierra and the northeast and northwest corners of the state, accounted for only $500 million in assessed valuation in 1975-76, or about 0.7 percent of the statewide total, and only about 1,250 ADA.

Under the provisions of Section 25457 of the Education Code, it is the intent of the Legislature "that all of the territory of the state shall be included in Community College Districts, except that of counties, the residents of which account for fewer than 250 units of average daily attendance . . . in community colleges . . .." Of the remaining ten counties with nondistrict territory, only Del Norte

Table 12: Comparative Assessed Valuation Per ADA and Tax Rates For Selected Districts, 1975-76

RANK CE/ADA[1]	District	Current Expense Per ADA	Assessed Valuation Per ADA	General Purpose Tax Rate	Total Tax Rate	ADA Rank[1]
10	Siskiyou	$1,583	$124,558	$ .6370	$ .6870	64
11	Coachella	1,557	159,172	.8410	.9630	54
12	Mt.San Jacinto	1,555	241,573	.4510	.5680	63
13	Gavilan	1,528	137,578	.6310	.7730	61
14	San Jose	1,476	139,512	.6180	1.0190	23
	Mean	$1,540	$160,479	$ .6356	$ .8020	--
20	Butte	$1,356	$ 94,620	$ .6540	$ .8740	53
21	Peralta	1,351	92,259	.6120	.9330	8
22	Shasta	1,341	92,531	.5400	.7000	40
23	Yosemite	1,339	88,521	.7300	.7900	22
24	Foothill	1,335	79,527	.6560	.8450	7
	Mean	$1,344	$ 89,492	$ .6384	$ .8284	--
30	Los Rios	$1,287	$ 80,785	$ .4800	$ .6940	4
31	Mendocino	1,286	213,544	.5700	.6600	67
32	Sierra	1,283	123,724	.6500	.7250	48
33	Cabrillo	1,274	99,557	.5450	.7080	39
34	Los Angeles	1,272	146,636	.6226	.7133	1
	Mean	$1,280	$132,849	$ .5735	$ .7001	--

Table 12 (continued)

RANK CE/ ADA[1]	District	Current Expense Per ADA	Assessed Valuation Per ADA	General Purpose Tax Rate	Total Tax Rate	ADA Rank[1]
40	El Camino	$1,219	$124,134	$ .6483	$ .6659	14
41	Citrus	1,199	60,097	.5588	.6088	38
42	Monterey Pen.	1,194	70,475	.4800	.6040	37
43	Napa	1,186	75,194	.4700	.7700	51
44	Coast	1,186	59,304	.7323	.7927	3
	Mean	$1,197	$ 77,841	$ .5779	$ .6883	--
50	San Francisco	$1,155	$120,671	$ .6237	$ .6247	5
51	Mira Costa	1,152	81,179	.6510	.7704	57
52	Ventura	1,145	86,006	.5273	.6545	10
53	Sequoias	1,139	123,070	.6200	.6200	50
54	North Orange	1,137	79,685	.5297	.6582	6
	Mean	$1,146	$ 98,122	$ .5903	$ .6656	--
60	San Joaquin D.	$1,111	$103,555	$ .4948	$ .6680	24
61	South County	1,109	129,968	.5500	.6620	25
62	San Diego	1,103	73,665	.4940	.6673	2
63	San Bernardino	1,102	82,439	.6892	.7166	21
64	Sonoma	1,097	87,421	.4800	.6100	26
	Mean	$1,104	$ 95,410	$ .5416	$ .6648	--

1. Ranked from largest (1) to smallest (70).

County, with about 500 ADA (and $130 million in assessed valuation) produces enough students to fall within this provision. Del Norte has begun a study of the question of whether to form a new district or be annexed to an existing district and must come to a decision by July 1, 1977. Under present law, the balance of the nondistrict territory is likely to remain as it is, barring unexpected population growth.

Expectation #3

> *State and local revenues should be derived from a balanced tax base that will continue to provide the necessary resources for the community colleges in the future.*

It is important to the efficient operation and sound planning of the community colleges that the revenue base from which they draw support for current operating costs be broadly based and have a growth rate that is similar to the growth rate for those costs. A revenue base that does not grow or is subject to major cyclical changes will only compound the problems inherent in managing an educational system of the size and diversity of the California Community Colleges.

The present revenue base appears to meet this expectation reasonably well. In 1975-76, approximately 43 percent of community college income for current operations was derived from district property taxes, and the property tax base, whatever its other faults, has proven in recent years to have a strong and reliable growth rate that is little affected by the business cycle. Over the past five years, for example, the total statewide assessed valuation has grown by 67.4 percent, or an annual average of 8.4 percent.

Another 43 percent of community college current income in 1975-76 was provided from the state's General Fund, which drew 40 percent of its income from sales and use taxes, 34 percent from the state personal income tax, 13 percent from the bank and corporation tax, and thirteen percent from all other sources. Taxable sales have grown at an average annual rate of 10.1 percent since 1971-72, despite the prolonged recession of 1973-74 and the recent economic "pause." During the same period, personal income has grown by 8.8 percent per year. Thus, it appears that the state's General Fund provides a second firm base for the community colleges and one that is more than adequate to meet projected increases in community college costs in the absence of any major shift in the allocation of General Fund expenditures.

The balance of community college current income is drawn from student charges, county property taxes, federal aid, income from sales and interest earnings, and miscellaneous other sources. With the exception of federal aid, which may grow or decline for reasons that are

unrelated to the actual needs of the community colleges, these other sources also appear to be sufficiently reliable to assure a continuing flow of income proportionate to their present contribution.

In sum the community colleges now have a revenue base that appears to match their present and projected needs. This revenue base may undergo some changes as a consequence of proposed state action to reconstruct the revenue base of the public schools and to increase local property tax relief for homeowners. The most likely result for the community colleges, however, would be a shift toward greater reliance upon the state's very solid tax base.

Expectation #4

> *The cost to students should be minimal so as not to be a barrier to any student who wishes to pursue an accredited course of academic or vocational study.*

It has long been accepted that there should be no tuition charge for California residents who enroll as full-time or part-time students in courses of study leading to an associate degree or an occupational certificate. Thus, the California Community Colleges have remained tuition-free for such students from their beginning. The authority of the local districts to charge tuition has been limited to foreign students, out-of-state students, and students in noncredit classes. Incidental charges are limited to parking fees, health service fees, and miscellaneous minor fines and penalties.

Moreover, there has been a significant effort since 1969 to provide grants, loans, and part-time employment for community college students who need financial assistance to meet the other costs of going to college. The EOPS program provides grants (as well as supportive services) to eligible low-income students. In addition, there are College Opportunity Grants and Occupation Education Grants administered by the Student Aid Commission and grants and loans provided by the federal government, the institutions themselves, and other sources.

According to the Student Aid Commission's most recent Student Resource Survey, the average cost of attending a community college fulltime, as reported by students, was $2,031 in 1974-75. The principal components of this cost, as compared with the costs of attending a four-year institution, are shown in Table 13. Clearly, the minimal fees charged by the community colleges are important to holding down the costs to students, but aside from the difference in tuition and fees, the costs of attending a community college are not very much less, on average, than those of attending a four-year institution.

To meet these expenses, the average community college student, according to the same survey, relies less on financial aid, personal savings, and assistance from his or her family or spouse and more on federal benefits (veteran's benefits, primarily) and income from employment. Student savings and contributions from parents and spouses amounted to 32.6 percent of the resources reported by community college students, as compared with 38.4 percent and 57.8 percent for UC and CSUC students, as shown in Table 14. Employment, on the other hand, provided 36.0 percent of the resources for community college students, as compared with 33.5 percent and 19.4 percent of the resources of CSUC and UC students, on average.

There is only fragmentary data regarding the question as to whether the present level of costs exceeds the resources available to low-income students, and therefore, prohibits a significant number from attending a community college. To the extent that minority group enrollment can be used as a proxy for the enrollment of low-income students, it appears that the community colleges do considerably better than UC and CSUC but still fall short of providing full equality of opportunity. Minority student enrollment remains below minority population as a percent of the state's total population, as shown in Table 15, because of the underrepresentation of persons with Spanish surnames. It is very likely, however, that the cost of enrollment is only one of a number of factors that contribute to the underenrollment of minority (and, possibly, low-income) students and not necessarily the most important.

Expectation #5

> *The system of support should permit and encourage effective local administration of the community colleges, including the ability to plan, to respond to legitimate local demands, and to make the best use of all available resources.*

"The strength of the community colleges," it has been observed, "has been their ability to respond individually and collectively to state and local needs for new programs and services relatively quickly and often without the infusion of new, special funds."[10] Thus, one of the central problems in managing their financial support is finding the proper balance between effective state supervision and coordination and the preservation of local initiative and accountability.

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10. Dorothy Knoell, Through the Open Door: A Study of the Patterns of Enrollment and Performance in California's Community Colleges, California Postsecondary Education Commission, February 1976, p. 2.

Table 13: Average Student Expenditures, California Colleges and Universities, 1974-75

Item	California Community Colleges	California State Univ. & Colleges	University of California	Independent Colleges
Tuition and Fees	$ 25	$ 180	$ 585	$ 2,420
Books and Supplies	139	173	175	167
Room and Board	1,144	1,372	1,392	1,319
Travel	289	338	253	281
Personal and Misc.	434	458	388	362
Totals	$ 2,031	$ 2,521	$ 2,793	$ 4,549

Source: Student Resource Survey, No. 2, California Student Aid Commission

Table 14: Average Student Resources, California Colleges and Universities, 1974-75

Item	California Community Colleges	California State Univ. & Colleges	University of California	Independent Colleges
Parent/ Spouse	$ 517	$ 810	$ 1,265	$ 1,664
Personal Savings	337	355	391	347
Benefits	578	526	198	160
Grants	159	160	284	1,176
Loans	85	163	174	367
Employment	942	1,016	554	486
Totals	$ 2,618	$ 3,030	$ 2,861	$ 4,200

Source: Student Resource Survey No. 2, California Student Aid Commission

Table 15: Minority Enrollment as a Percentage of Total Enrollment in California Community Colleges, Fall 1975, Compared With 1970 Census Data for California and 12th Grade Enrollment for 1973

Ethnic Group	Community Colleges		1970 Census	12th Grade Enrollment 1973[2]
	Males	Females		
American Indian	1.0%	0.9%	0.5%	0.4%
Asian	3.4	3.5	2.8	3.1
Black	8.3	7.8	7.0	7.9
Spanish Surname	8.5	6.9	15.5	12.7
Subtotal	22.2%	20.0%	25.8%	24.1%
Whites and All Others[1]	77.8	80.0	74.2	75.9
	100.0%	100.0%	100.0%	100.0%

1. Includes nonrespondents.
2. Last year of reporting.

Source: Fall 1975 Racial and Ethnic Survey, California Community Colleges

Local governing boards and administrators must be able to carry on educational and financial planning based upon reasonable expectations as to the future level and form of both the state and the local support they will receive. They must also have the flexibility necessary to respond to responsible local needs--by adding new programs of instruction and dropping others, for example, to serve new groups of students and the changing needs of the existing student population.

This does not mean that they must be given unobstructed access to the state's General Fund. Rather, they should be assured access to a variety of resources that can be employed as needed, subject to full accountability to the taxpayers and their elected representatives. They should be able to draw upon local resources to respond to local needs while continuing to receive support from the state under a system that offers reasonable assurance of an adequate level of financing from year to year and which does not require frequent overhauls to correct major distortions.

Because the state must allocate its own limited revenues among a large number of competing interests, some intervention in what local officials believe to be local prerogatives is inevitable. Similarly, it is a mistake to think that an entirely neutral financing system can be devised. The financing mechanism is certain to influence educational policy if only because, on one side, the colleges seek to use the system to maximize the dollars available to them, while, on the other, state officials seek to minimize costs. As another writer has pointed out, "Recognizing that a very real need exists to assure the efficient use of available monies, the task ahead is to find a way to do this without destroying the peculiar genius of the community colleges."[11]

In the past, the community colleges have enjoyed considerable freedom in this regard, largely because state support has been provided by a relatively simple formula, and local taxing authority has generally been commensurate with growth rates in most areas. More recently, however, the state has sought to restrict local taxing authority, and while it has increased state support, it has also, in the view of many local officials, evidenced an interest in increasing its controls over the operation of the community colleges through the Legislature, the Department of Finance, and the Board of Governors.

Expectation #6

> *The system of support should permit and encourage effective management of the state's fiscal responsibilities and contain no incentives for excessive growth or cost escalation.*

The system of support generally, and the system of state support specifically, should be such that the Governor and the Legislature have full opportunity to exercise their responsibilities for the effective and prudent management of the state's financial resources. State budget managers must have the information they need to estimate current and future costs and the authority to control those costs so that there will not be large and unforeseen increases that might jeopardize other public services or the state's fiscal integrity. Moreover, they must be able to relate proposed expenditures for the community colleges to state support for postsecondary education generally and to adjust annual state expenditures in conformance with the explicit and implicit policy decisions of the Governor and the Legislature.

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11. Mary Lou Zoglin, Power and Politics in the Community Colleges, ETC Publication: Palm Springs, 1976, p. 19.

The foundation program system of state support in effect prior to 1973 provided for "open-ended" state support to the extent that the state was committed to making up the difference between the minimum tax effort required of every district and the cost of the foundation program. This was generally consistent with state encouragement of the rapid expansion of the community colleges, not only to meet the rising demand for postsecondary education of the 1960s but also to provide a lower-cost alternative for students who might otherwise enroll at a state college or university campus for their first two years of baccalaureate study. But the state was able to restrain rising costs by holding the foundation amount well below the current statewide average expenditure per unit of average daily attendance.

After the system of state support had been modified in 1973, a major flaw soon became apparent when, as discussed earlier, unexpected enrollment growth threatened to increase state expenditures well above what had been forecast and what had come to be an acceptable level of growth. The new system, which linked state and local support directly to ADA and raised the foundation amount to a level close to the average expenditure per ADA statewide, created an incentive for enrollment growth that helped to stimulate a rapid expansion of enrollment in continuing education programs. As a consequence, enrollment growth greatly exceeded budget projections, and the Governor and the Legislature found it necessary to override the statutory support formula by imposing an arbitrary five-percent "cap" on the growth of state support until a new support formula could be devised that would provide a better built-in restraint on growth.

This was largely accomplished with the enactment of SB 1641 in 1976, but that legislation failed to deal with another important weakness with respect to state fiscal management. This weakness is that the system of state support for the community colleges does not receive the regular and thorough review each year that is given to budgeted state support for the University of California, the California State University and Colleges, and the other elements of the state's postsecondary education system. Nor are community college expenditures considered in the context of state spending for all forms of postsecondary education. Instead, support for the community colleges (with relatively minor exceptions) is provided by continuing appropriations outside of the annual budget act and ordinarily subject to review, if at all, only when a major change in that legislation is proposed.

It can be argued, therefore, that in this respect the present system of support discourages effective state management of its financial resources. Support for the community colleges should be examined regularly by the Legislature's fiscal committees at the same time as it reviews proposed expenditures for other postsecondary institutions. Such regular examination does not occur under the present system, and this is an important deficiency that requires the prompt attention of the Legislature.

Expectation #7

The system should be sufficiently flexible to accommodate changing circumstances without requiring an extensive overhaul every few years.

From 1947 through 1972, the system of support remained essentially unchanged. Although the foundation amount and the district tax requirements were changed periodically to provide for cost increases and to improve equalization, the foundation program itself continued to define the state's responsibility, and the districts continued to raise or lower local property taxes to meet the balance of their needs. The most significant change during this period was the growth of the state's contribution relative to total district current income and the much smaller but still significant increase in federal aid. State aid was not regularly adjusted to offset the effect of inflation, after forcing the districts to absorb the full impact of price increases, but the system itself provided a consistent expression of state policy for approximately a quarter-century.

Since 1972, however, there have been two major changes in the system of state support, the full effects of which are still unknown. The first of these changes (SB 6) was enacted in an effort to make state support for the community colleges consistent with earlier state school finance and tax relief measures, as well as to increase the state's contribution. The second (AB 1641) was enacted in large part to deal with problems created by the first, but left other important questions unresolved. Thus it is possible, if not probable, that there will be further changes within a year or two.

In effecting these changes, every effort should be made to reestablish the relative stability of the 1947-1972 period so that state and local administrators can have an opportunity to give greater attention to program planning and less to accommodation to sudden changes in financing. In view of the recent history of community college support, this may be the most difficult of all expectations to meet, but it is no less less important for that.

In summary, the available evidence indicates that the community colleges have received a level of support from all sources in recent years that has been sufficient to enable them to carry out their responsibilitites while growing rapidly and that this level of support will be continued under SB 1641. Moreover, this has been accomplished while keeping student fees to a minimum. The community college tax base is broad and well balanced, although this may be affected by proposed increases in local tax relief and changes in property tax support for the public schools. There remains, however, a need for protecting districts from the extreme effects of declining enrollment, for improvement in equalization, and for adoption of a

means of encouraging regular review of community college finance in the context of support for all of postsecondary education. The former will require a major change in the state apportionment formula established by SB 1641 of 1976 as will the need to soften the impact of enrollment losses on low-wealth districts.

SECTION 4

ALTERNATIVES TO THE EXISTING SYSTEM OF SUPPORT

Although it has undergone several very important changes in recent years, the existing system of support for the California Community Colleges continues to have two basic features: (1) state and local sharing of the costs of current operations, with relatively minor additional support from federal aid and student fees, and (2) a statutory system for allocating the greater portion of state support among the districts according to a formula that has as its principal objective equalization of the local tax burden. In examining alternatives to the existing system, therefore, we will focus upon these two elements, discussing, first, alternative sources of support (or different sharing arrangements) and, second, alternative methods of providing state support.

Alternative Sources of Support

Although the local districts have borne primary responsibility for supporting community college classes from their beginning, state aid has a history that is nearly as long. Thus, there is a very strong tradition of state and local sharing in the costs of the community colleges, and when this has been a matter of dispute it has usually been about how large these shares should be, not on whether the state or the districts should bear the entire burden. Nevertheless, it is important to a thorough examination of alternatives to the existing system to consider the feasibility and implications of full state support on the one hand and full local support on the other, as well as a significant reallocation of the burden within a system of state and local sharing. In addition, it is necessary to consider the desirability and implications of an increase in the share of current costs borne by students. The only alternative that is beyond the scope of this study is one that would call for a substantial increase in federal aid. Although California may be interested in securing an increase in federal aid for postsecondary education, the objectives and methods of doing so go well beyond the scope of this study.

Full State Funding

In 1976-77, we estimate that the state will provide $580 million, or forty-six percent, of the revenue that will be expended to operate the community colleges. In subsequent years, both the amount and the percentage are expected to increase, reaching $930 million, or 49 percent, by 1980-81. If the state were to take responsibility for that portion of community college income that is now derived from district taxes and other revenues, the state would have to provide an additional $630 million in 1977-78 and as much as $780

million by 1980-81. Obviously, this would have a substantial impact on state expenditures for other purposes and would very likely require a corresponding increase in state taxes (which might be accomplished by converting community college property taxes to a statewide property tax), a corresponding reduction in state expenditures for other purposes, or some combination of the two. Unquestionably, the state would have to have a very good reason for taking such a step.

Full state funding might be considered desirable if the Governor and the Legislature should come to believe that state control of the community colleges ought to be greatly strengthened and that such control could only be obtained by taking over the full responsibility for meeting community college current expenses. At present, however, there is little evidence of interest in such action, despite the significant erosion of confidence in local expenditure controls that has occurred in the past two years.

A more likely objective for state assumption of full responsibility for community college costs would be to substantially increase local property tax relief. The state now allocates $1.4 billion or nearly 13 percent of its general fund expenditures to this purpose, but property tax relief continues to be a matter of considerable interest to the Governor and the Legislature. State assumption of the local responsibility for community college operating costs would provide a relatively straightforward and dramatic form of property tax relief that could not be easily offset by increases in local taxes for other purposes.

If the state were to take this step, however, it would also have to consider the possibility of taking over many, if not all, of the governance responsibilities now lodged with the local district governing boards, as this action would raise serious questions about the desirability of retaining a local governing structure that had little significant fiscal responsibility. And, in all probability, the state would also have to consider taking over the entire burden of community college capital outlay.

The matter of tax relief is outside the Commission's area of responsibility, however, and is one upon which the Commission might want to make a recommendation to the Legislature only if there were some compelling supporting argument within the Commission's jurisdiction. It can be held that full state funding would solve the problem of equalization of district tax burdens, but equalization can be accomplished in a number of other ways that would be less likely to require a complete overhaul of the existing system of community college governance, as well. Perhaps the strongest statement that can be made now in support of 100 percent state support is that the arguments against it become weaker as the state moves the districts closer to the average statewide expenditure per ADA.

Full Local Support

At the other end of the state-local support spectrum is full local support. If the state's share of community college support for 1977-78 were shifted to the districts, there would be a saving to the state of an estimated $655 million. There would be a balancing increase of approximately the same amount in local taxes, however, which would be equivalent to an average increase in district tax rates of $ .65 to $ .70. Given the existing disparities among the districts with respect to taxable wealth per unit of ADA, such a shift would be likely to raise property tax rates in the lowest wealth districts by considerably more than $1.00.

A shift of the entire state-local cost of community college instruction onto local revenue sources might be justified if state legislators and administrators determined that they should rid themselves of all responsibility for the management of the community colleges. Yet they could not do so even by such drastic action as this, for they would simply be delegating a responsibility that is theirs inescapably under the California Constitution. Thus, little would be accomplished other than the reversal of the property tax relief and equalization policies of the last ten years.

Clearly, this would not be well received by those who now believe their property taxes to be too high or by those who believe that every effort should be made to shift more of the cost of public services away from local property taxes and onto such state-levied taxes as the personal income and bank and corporation taxes. Moreover, it is doubtful that many districts could maintain their present level of spending under such circumstances. Very probably, some of the loss in state support would have to be offset by tuition charges, substantial cutbacks in instructional programs, or both. At the same time, there would be no equalization of the tax burden and ability to support the community colleges.

Some of these problems might be avoided if the state were to give the counties authority at the same time to levy a local income or sales tax for support of the community colleges. A local income or sales tax would not eliminate the need for equalization of the tax base across district lines, but it might be somewhat more acceptable to local taxpayers than an increase in property taxes.[1]

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1. A property tax relief measure that would authorize local governments to levy a 15 percent surcharge on the state income tax is now being considered by the Legislature.

A Greater Local Share

If a shift of the entire state cost of community college instruction to the local districts appears to be beyond the realm of reasonable policy alternatives at this time, there is still the possibility of increasing the local share by some percentage. The goal might be to return, to provide a specific example, to the 30-70 state-local ratio that was obtained in 1959 at the time of the Master Plan Survey Team study.

Such a step might serve to lessen the interest state legislators and administrators now have in community college matters, thus reducing the threat of unwarranted intervention and giving local boards and administrators a freer hand. It would also free more than $300 million in state revenues for support of other state programs or to be returned to the taxpayers. But it would do so only at the probable cost of a substantial increase in local property taxes (which would, of course, offset any tax relief that might be provided by the state), greater disparities in the tax burden from district to district, and strong pressures to cut expenditures or raise student fees. An increase in property taxes might be avoided if the state were to authorize a local income or sales tax for this purpose, but the problem of equalization would remain.

A Greater State Share

For many years, community college board members and administrators have sought to have state support increased to 45 percent of the total state and local contribution. Now that this goal has been achieved, or is very close to achievement, it is not clear whether it also represents a limit beyond which state support should not go or a base below which state support should not again be allowed to fall.

In adopting the 45 percent goal as one of its recommendations in 1960, the Master Plan Survey Team did not attempt to justify that figure in particular but seemed to accept it as a rough measure of the contribution the state should make in supporting the community colleges. Records of the survey team's deliberations suggest that in this respect they may have thought the community colleges to be comparable to business firms. If the state were to contribute more than half of community college current income, their reasoning appears to have been, it would become the majority stockholder with a controlling interest in the venture, and the powers of the local districts would be seriously weakened.

Thus the figure of 45 percent appears to have represented the approximate maximum state contribution compatible with the existing system of governance, even though the state might contribute substantially more than 50 percent to any one district. It may be that this view

was and is widely enough shared at both the state and local levels that it has a force of its own, but the logic of the matter is otherwise difficult to discern. It fails to take into account income from federal aid and student fees and ignores the fact that the state does not have an equal interest in all community college programs. It is doubtful, moreover, that if state support reaches 51 percent in a few years, as is entirely possible, the community colleges will abandon their claims to local autonomy. There is, in short, no evidence that the figure of 45 percent has any compelling relationship to the division of responsibility for governing the community colleges between the state and the districts.

Other studies since 1960 have come to much the same conclusion. The report on community college finance prepared by the Coordinating Council for Higher Education in 1969, for example, concluded:

> A substantial increase in the state share of Junior College operating expenditures is consistent with the criteria employed in this review. The higher state share may be justified on the basis of (1) more equalization of local financial ability among districts and (2) deriving the support of Junior Colleges from taxpayers on a more equitable basis. There is no apparent basis for pegging the state share at 45%, however.[2]

Experience over the past two years suggests that the state's interest is tied not to the relative size of its contribution but to its absolute size and the potential impact of sharp and unforeseen increases in cost. The unexpected doubling of enrollment for a program to which the state contributes $1 million or less, for example, is very likely to occur with little notice. But when community college enrollment increases suddenly, as it did in 1975, threatening to cause state expenditures to grow by nearly $160 million, the state must act to establish some effective controls no matter what its percentage contribution may be.

At some point, surely, perhaps 65 to 75 percent, the state's contribution would be so large relative to that of the district's that the existing system of governance would need to be reexamined. But short of that, we see no close relationship between the existing system of governance and the relative state and local shares of current costs.

Thus the question of a further increase in the state's share turns on its cost to the state, the impact with respect to equalization,

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2. A Review of Junior College Finance, Coordinating Council for Higher Education Report 69-2, 1969, p. I-4.

and the desirability of continuing to shift the tax burden from the local property tax base to the state's tax base. An increase in the state's share to 60 percent by 1980-81, to take a concrete example, would cost the state an additional $210 million per year in that year according to our projection of community college current expense, as shown in Table 16.[3]

Table 16: The Projected Increase in State Costs, 1977-78 through 1980-81, When the State's Share of Current Expenditures is Increased to 60 Percent

	Existing Formula		State Share Increased to 60 Percent	
Year	State Support (Millions)	Percent of Current Income	State Support (Millions)	Percent of Current Income
1976-77	$580	46%	$ 580	46%
1977-78	640	46	690	50
1978-79	710	47	820	54
1979-80	800	48	970	58
1980-81	900	49	1,110	60

With regard to the impact on equalization, it is clear that such an increase in the state share and a corresponding lightening of the local burden would help to ameliorate interdistrict tax base disparities. If this remains an important consideration, then an increase in the state share is an alternative that certainly merits further consideration. Our analysis of the problem of equalization at the community college level indicates, however, that the local tax base disparities are substantially less important for the community colleges than at the elementary and secondary school levels because of the offsetting effect of existing state support. Moreover, the new method of determining the state's contribution to community college costs does not lend itself to this kind of manipulation any more than the previous formulas did. If the state's share is to be increased significantly, a new aid formula (e.g., percentage equalizing)

3. This projection is based upon a 10 percent annual increase in total current support. If the increase is reduced to 5 percent annually, the difference in state cost is reduced to $150 million.

should be devised to accomplish that objective in a straightforward manner. Otherwise, the percentage shares should be permitted to find their own levels within a system that is equitable in other respects.

Increasing Student Contributions

As indicated earlier, student fees continue to support a relatively minor portion of community college current expenditure, although that portion has grown slightly in the last few years. For 1975-76, the seventy community college districts reported the following income from student charges:

Nonresident students	$ 9,255,572
Adult education	3,640,412
Health fees	2,379,446
Parking fees	1,361,696
Childrens' Centers	52,273
Other fees and fines	1,790,742
	$18,480,641

As noted earlier, this amounted to less than two percent of their total current income. If the student contribution to current expense is to be increased significantly, it must be either through an increase in charges for student services, such as counseling and testing, admission and registration, and recreational and athletic activities, or through tuition (a fee that is expected to cover some portion of the cost of instruction).

At present, community college students who are residents of the districts in which they are enrolled are charged only for student health services, parking, and the use of child care and development centers, whereas lower division students attending the California State University and Colleges and the University of California must pay student service fees covering a much broader range of student services. A precise estimate of the amount that might be raised through imposition of a student services fee comparable to that of the California State University and Colleges ($148 per year) would require a more detailed examination of costs than has been undertaken for this study. We would expect, however, that the amount of additional income raised by a fee of $50 per full-time student, prorated for part-time students, would not be greater than $29 million and might very well be considerably less.

A much greater increase in the student contribution to current expense might be obtained through the imposition of a modest tuition charge. A charge of $100 per year for full-time students, prorated for part-time students, might be expected to yield as much as $57 million, depending on its impact on enrollment and offsetting increases in student aid. Such a charge might be related in some way

to actual instructional costs or, as is more common, represent a user fee that has no direct relation to such costs.

As a practical matter, however, there is little value in considering a general tuition charge as a potential source of revenue for the community colleges at this time. Over the years, there has been no significant break in the opposition to tuition for community college students as expressed in the 1960 Master Plan, subsequent studies by the Coordinating Council for Higher Education, and various studies by legislative committees, the Legislative Analyst, and this Commission.[4] It thus remains a firmly established matter of public policy in this state that there shall be no general tuition charge that might limit access to the community colleges for low-income students.

This is not to say, however, that there is no possibility of raising additional revenue from selective tuition charges. As was noted earlier, the community colleges are now authorized to charge tuition not only for students from out of state and as part of interdistrict attendance agreements, but also for enrollment in any class that is not eligible for state support.

In the fiscal policy statement adopted by the Board of Governors, December 4, 1975, the Board had this to say about instructional fees (tuition):

> Fees may be charged at local option to those students in noncredit courses and should be accompanied by financial assistance for those unable to pay.
>
> This permissive fee policy helps preserve the open door concept of equal opportunity for access and allows the districts to decide whether the noncredit course is in (a) the general community interest and, therefore, state and local tax supported, (b) the individual's interest and, therefore, fee supported or (c) some appropriate combination of local tax and fee support.[5]

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4. Evidence of the Legislature's opposition to tuition can be found in its action in 1974 to transfer to the state the cost of "instructionally related services" of the California State University and Colleges and in 1975 to pay that part of the CSUC materials and services fee related to the cost of instructional materials.

5. Community College Finance Program, 1976-77, Board of Governors, Sacramento (February 1976).

Although the meaning of this statement is not entirely clear, it appears to say that the community college districts should be free to charge tuition for enrollment in any noncredit course and that they should be able to make that decision according to their individual judgments as to whether or not the course is in "the community interest."

The Department of Finance proposed early in 1976 (prior to passage of SB 1641) that the state should not support "recreational" courses, which it defined as "any course which most students take primarily for entertainment, enjoyment, diversion, relaxation, or leisure purposes."[6] Similar proposals were advanced by the Board of Governors and this Commission, but were rejected by the Legislature because of difficulties of administration and enforcement. Instead, the Legislature agreed to a provision in SB 1641 authorizing tuition charges for any student enrolled in a class not eligible for state aid.[7] At present, the latter, as previously noted, are classes for which the district is fully compensated from other sources--including any "individual or group of individuals"--and classes that are effectively closed to the public. This would appear to go part way toward meeting the Board of Governor's recommendation in that the districts can create the conditions under which courses are not eligible for state aid and, therefore, can be supported in whole or in part from tuition. But it does not extend the possibility of tuition to all noncredit courses, as the Board of Governors apparently proposed in its 1976-77 policy statement.

We believe that a strong case can be made for excluding noncredit courses, other than those which the Board of Governors and the Legislature have identified as having a special statewide interest, from state support and allowing each district to decide whether such courses should be supported from local revenues, student fees, or some combination of the two. The Legislature has indicated that it believes that classes in English and citizenship for aliens, classes in elementary subjects, and in high school subjects for persons without a high school diploma should be state supported. Many other noncredit courses by their very nature may be considered to be primarily

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6. Summary Report for Proposed Reforms for California Adult Education, State Department of Finance (February 25, 1976).

7. SB 1641 also provided that ADA for noncredit classes in adult basic education, high school diploma programs, vocational and occupational training and retraining, and adult continuing education shall be counted for state aid only where there is mutual agreement among the high school, unified, and community college districts that such classes are the responsibility of the community colleges.

of local interest, and the districts should be free to respond to local needs by offering such courses with or without charge according to local conditions and viewpoints.[8]

Noncredit courses or classes (also referred to as classes for adults and ungraded classes) do not have to meet the criteria and standards for graded courses established by the Board of Governors in the Administrative Code. According to the Handbook of Definitions of the California Community Colleges:

> These classes are without college grade-level designation and are organized primarily for persons 21 years of age or over. These courses have been designed primarily to meet the special needs and capabilities of adult students and determined to be an adult class by the governing board of the district. Such courses are conducted in accordance with a course outline but need not be a part of an organized sequence of classes.

To be eligible for state support, noncredit classes must be approved by the Chancellor's Office, but the only noncredit classes that may not be approved for state support are recreational physical educational classes, recreational dancing classes, and military classes offered only to military personnel and conducted on military bases.

Classes that have not been approved for state support may be classified as "community service courses," which are supported from a permissive community service tax of up to $ .05. Among the classes

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8. The Board of Governors has established the following criteria of credit (graded) classes in Title 5 of the Administrative Code:

   A graded (credit) class shall possess one or more of the following characteristics:

   a) Provides credit toward an associate degree.
   b) Is normally considered of college level and is approved by the board as part of a course of study leading toward an associate degree.
   c) Is part of an occupational course of study beyond high school level leading to an associate degree or occupational certificate or both.
   d) Is recognized by the University of California, a California State University or College, or accredited independent college or university in California as part of:
      (1) Required preparation toward a major; or
      (2) General or general education requirement; or
      (3) Permissible or recommended elective credits.

commonly supported in this manner are senior center programs, short-term classes, lecture series, tours, and volunteer programs.

In 1976-77, total enrollment in noncredit classes is likely to amount to about 185,000.[9] Assuming that 30 percent of this enrollment is in classes that the Legislature has identified as meriting state support, and 10 percent in classes not eligible for state support under existing law, it may be estimated that withdrawal of state support for the remaining 60 percent would have reduced state support by approximately $20 million. It is unlikely that this full amount would be made up by student fees, but if half were the student contribution would be increased by $10 million. Such an increase would not constitute a major contribution to community college current support, but it would represent a rational solution to the unresolved problem of what courses should be supported by the state and what courses the community colleges should be free to offer without increasing state costs.

Alternative Methods of Providing Support for the Community Colleges

The foregoing discussion has dealt with alternative sources of support for community college expense. This section will deal with alternative methods of providing that support. Although not entirely independent of one another, these two aspects are different enough in most cases to be treated separately in analyzing the principal policy choices regarding community college finance.

It is not possible in this space to present and discuss all conceivable alternatives to the existing method of providing support to the community colleges. It is possible, however, to examine a number of alternatives that are representative of the principal policy options suggested by the historical development of the community college finance system, its present structure, and the fiscal issues confronting the state at this time. In general, we believe these options concern equalization, institutional versus student aid, and

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9. This estimate is based upon a reported enrollment of 182,859 for 1975. Incomplete figures for 1976 suggest, however, there may have been a substantial drop in this enrollment from 1975 to 1976.

   Evidence as to the degree to which the districts have responded differently to the local demand for such classes is to be found in the great variations in the size of noncredit enrollment from one district to another. In 1975, for example, San Diego reported that approximately 49 percent of its total enrollment was in noncredit classes, North Orange reported 45 percent, San Francisco 44 percent, Long Beach 18 percent, Coast 3 percent, Peralta 3 percent, Los Rios 2 percent, and Los Angeles reported none.

methods of strengthening state and local management of limited financial resources. For this purpose, we have chosen to examine the following alternatives: (1) a system of vouchers or entitlements; (2) percentage equalizing; (3) a district power equalizing formula; and (4) a budgetary system of state support employing the existing appropriation formula.

Student Vouchers or Entitlements

There are two ways, basically, in which public support for postsecondary education may be provided: as direct aid to public or private institutions of postsecondary education or as financial aid to students who then pay that aid (or some part of it) over to the institution in which they enroll. These two methods of subsidizing postsecondary education correspond to the two ways in which government provides goods and services of any kind: by direct purchase of those goods and services for allocation among selected recipients or by (transfer) payments to individuals so that they may purchase the goods and services themselves. Many public programs, including public postsecondary education, are supported through some combination of these two methods.

At present, less than two percent of state aid to the community colleges is allocated as student aid. Like most public postsecondary institutions that charge little or no tuition, the California Community Colleges receive all but a relatively minor portion of their state support as institutional aid. Much the same is true of federal aid. The community colleges do receive some federal student aid in the collection of student fees from recipients of veterans benefits, basic educational opportunity grants, and other federally supported grants and loans. But because student fees remain low, they continue to receive most federal monies in the form of institutional aid.

Some who have studied the matter of public support for postsecondary education believe that the situation should be reversed, that all or nearly all public support should be provided in the form of student aid. The ideal subsidy, they believe, is "direct and portable aid to students, completely untied to any single institution or geographic area . . . ."[10] Institutional aid, it is argued, benefits all students equally, instead of aiding those students who need it most, and does not permit students to decide for themselves what institutions and courses of study are best for them unless they or their families are wealthy enough to entirely ignore the direct and indirect costs of postsecondary education.

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10. Roger E. Bolton, "Burdens and Bargains in Higher Education," Public Interest (Spring, 1968), p. 125.

The advocates of this view believe the state or the federal government should establish a system of student vouchers or entitlements. Some of the mechanics of a voucher or entitlement system are suggested in a recent study by Professor Henry Levin of Stanford. According to Levin, a system of postsecondary entitlements should have the following five minimum characteristics:

1. Public support of postsecondary education and training would be channeled to the student in the form of a promissory note or entitlement.

2. The entitlement would obligate the government to provide a specified amount of grants and loans that could be used for participating in any eligible education and training programs.

3. The amount of the entitlement, its composition between grants and loans, and the terms of loans would be determined by the family resources of the student and other pertinent factors such as his/her age, race, sex, veteran status, geographic location, and training pursued.

4. Any education or training program meeting the eligibility requirements set out by government could accept students with entitlements and redeem them. Such institutions would probably include most existing public and private colleges, universities, and training institutes as well as a multitude of public and private training programs. New programs would also be eligible to participate by meeting the specified eligibility requirements.

5. Governments would sponsor an information and regulatory agency that would provide data for participants on training alternatives and their costs as well as program descriptions and performances, on job prospects among different occupations and training specializations, and on the specific eligibility regulations that determine both the conditions of student and trainee participation on the one hand and the requirements that must be satisfied for program eligibility on the other.[11]

Insofar as the California Community Colleges are concerned, a voucher system with these characteristics, according to its advocates, would

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11. Henry M. Levin, "Postsecondary Entitlements: An Exploration." Center for Economic Studies, Palo Alto, California (March 1975), pp. 4-11.

force the colleges to be more responsive to student needs and to be more efficient in meeting those needs because they would no longer be protected from normal market forces by direct subsidies from the state. Increased competition for students would require the less efficient and effective institutions and departments to change in order to survive. In addition, the range of choice available to low-income students could be broadened significantly by giving them proportionately larger subsidies than other students.

It is difficult, if not impossible, however, to conceive of a voucher system that would include only the community colleges, and it is unlikely that many proponents of vouchers would favor such a system. Moreover, a system of state support that is closely tied to enrollment units, as the present system is, offers many of the same incentives for competition for students that a voucher system might. Finally, we believe that the gains that the advocates of vouchers promise do not, at the state level, outweigh the risks that the market will not operate as perfectly as advertised, that educational opportunities will in fact be curtailed, and that at best the educational system that would develop under a voucher system would not differ significantly from that produced by a system of institutional subsidies.

District Power Equalizing

The renewed interest in interdistrict equalization at all levels of locally supported public education, which produced the original Serrano decision in California and similar court rulings in several other states, has also produced a solution to the problem that is favored by many of the principal advocates of greater equalization.[12] This solution is known as district power equalizing, and in its simplest form it provides that any local tax rate will produce the same amount of revenue per student from one district to the next, regardless of the size of the tax base per student. According to its advocates, district power equalizing is preferable to district reorganization or a statewide property tax as a means of obtaining equal education opportunity because it will equalize the ability of the local districts to support public educational institutions without sacrificing local participation in financial decision making.

Although proposed primarily as a solution to the problem of equalization at the public school level, power equalizing also represents a reasonable alternative to the existing system of equalization at

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12. See, for example, John Coons, William H. Clune III, and Stephen D. Sugarman, Private Wealth and Public Education, Cambridge: Belknap Press, 1970.

the community college level. Its principal features are full equalization and maintenance of local governing board authority regarding district tax rates and expenditure levels. In its most commonly proposed form, however, it also requires that districts with relatively high taxable wealth per student contribute property tax revenue for the support of low-wealth districts. It is this feature, certainly, that has been the principal obstacle to its popular acceptance.

Under the simplest power equalizing plan, the state would select some level of assessed valuation per unit of ADA below which it would provide equalization aid and above which it would not. It would then prepare a power equalizing schedule according to which, for example, each district could spend $20 for each cent of property tax it levied. Table 17 illustrates what might occur under such a schedule. To simplify the illustration, it is assumed that seven districts elect to spend $1,300 per ADA and, therefore, must levy a tax of $ .65 per $100, while two others choose to spend $1,500 per ADA and must levy higher rates. In this example, Districts A, B, C, D, and G would receive equalization aid equivalent to their deficits. Districts E, F, and H would receive no aid, and Districts F and H would be required to contribute their "surplus" for redistribution among the districts with assessed valuation below $200,000 per ADA.

Table 17: An Example of the Working of a Power Equalizing Formula for Eight Districts of Differing Assessed Valuation Per ADA but the Same Expenditure Level

District	Expenditure per ADA	Tax Rate	AV/ADA	Revenue per ADA	Surplus (+) Deficit (-)
District A	$1,300	$ .65	$ 60,000	$ 390	- $ 910
District B	1,300	.65	100,000	650	- 650
District C	1,300	.65	140,000	910	- 390
District D	1,300	.65	160,000	1,040	- 260
District E	1,300	.65	200,000	1,300	0
District F	1,300	.65	240,000	1,560	+ 260
District G	1,500	.85	140,000	1,190	- 310
District H	1,500	.85	200,000	1,700	+ 200

Under such a plan, there would be an incentive for low-wealth districts to spend more per ADA, because much of the additional income would come from other districts or the state, and for high-wealth districts to reduce their spending, so as to give less of their income to other districts. The cost to the state, therefore, would depend in large part on district responses to these incentives and upon the level of assessed valuation at which the state chose to begin to make equalization payments. At one extreme, the state could begin equalization just below the assessed valuation of the wealthiest district, in which case the state would have to meet the entire cost of equalization. At the other, if equalization were to begin at the level of the statewide average assessed valuation per ADA, and the districts did not respond to the expenditure incentives, the state cost would approach zero, as most of the cost of equalization would be borne by the districts with above average assessed valuation per ADA. In reality, however, it is probable that some districts would respond to the expenditure incentives, so that the cost to the state could not be easily estimated in advance of the adoption of a power equalizing plan.

There are, of course, many possible variations on this basic model. Very probably, for example, the state would want to establish some limits on district tax rates or expenditures so as to set a ceiling on potential state costs. It might also want to establish a limit on year-to-year increases in district tax rates or expenditures so as to minimize unforeseen increases in state costs. Finally, the state might want to establish a statewide property tax in conjunction with the power equalizing schedule so as to obscure the shift in revenues from the wealthier to the poorer districts and, therefore, make the system more palatable to the wealthy districts.

Percentage Equalizing

In February 1976, the Commission approved a plan for changing the system of state support for the community colleges from the foundation program then in effect to a system termed percentage equalizing. Under this system, the state would first establish the percentage of community college current expense that it would provide and then allocate support among the districts on an equalization basis to achieve that objective.[13] There would be no guaranteed basic aid, and all ADA would be counted equally. Each district would receive the preestablished percentage of its revenue limit (expenditure per ADA) adjusted upward or downward in inverse proportion to the ratio of its assessed valuation per unit of ADA and the statewide average assessed valuation per ADA.

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13. For a more detailed description of the Commission's proposal see Item 8, Agenda for February 9-10, 1976, California Postsecondary Education Commission.

Thus, if the state share were set at 45 percent, a district with average assessed valuation per ADA would receive state aid equal to 45 percent of its authorized expenditure per ADA. Districts with above average assessed valuation per ADA would receive proportionately less (those at 1.8 times the statewide average or above would receive no state aid under the Commission's plan), and those with below average wealth per ADA would receive proportionately more.

Each district's revenue limit would be adjusted annually to reflect expected increases in state General Fund revenues (thereby assuring the community colleges a constant share of state revenues) and the relationship between the district's revenue limit and the median revenue limit for all community college districts. This would not only provide for an annual increase in the revenue limits generally but would also steadily reduce the differences among districts in regard to income and expenditures per ADA. Districts with relatively high revenue limits would have those limits lowered relative to the statewide average; districts with relatively low limits would have theirs raised.

This plan might have improved equalization of the tax burden among the districts and would have made it possible for the state to fix its share of current expense directly. In addition, in the absence of any refinements--special consideration for small districts, for example, or different revenue limits for different types of classes--it would have greatly simplified the state support formula.

A similar plan was proposed by the Board of Governors of the California Community Colleges, differing primarily in that it called for a specific state share (45 percent), retained basic aid, and set a 90 percent ceiling on state aid for low-wealth districts.[14] Either of these two plans may still be considered to be a reasonable alternative to the new system of support established by SB 1641. However, the fact that the Board's proposal failed to gain substantial support at the 1976 Session suggests that this approach will require some modification if it is to be reconsidered in the future.

A Budgetary System of State Support

There are three ways in which the Legislature appropriates state revenues for support of state operations and local assistance:

(1) By direct appropriation from the state's General Fund through the annual budget act and supplementary legislation;

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14. For more details see Community College Finance Program for 1976-77, Board of Governors, Sacramento, February 1976.

(2) By continuing statutory appropriations from the General Fund to an intermediate fund from which state aid is allocated according to statutory formula; and

(3) By continuing appropriation from special funds established to partly or wholly support specific functions and activities.

At present, the greater part of state support for postsecondary education is appropriated by the first method, with certain relatively minor activities supported by special funds. The only major appropriation for support of postsecondary education that is not carried in the annual budget acts, and, therefore, is not subject to annual scrutiny by the Legislature's fiscal committees, is the apportionment for support of the community colleges. Community college support, as discussed in an earlier section, is appropriated in the same way as state support for the public schools--by continuing appropriation from the General Fund to the State School Fund for allocation among the districts according to a statutory formula. This statutory system of support and the formulas it employs are subject to review only when there is strong pressure for change, as there was in 1973 and again during the 1976 Session of the Legislature.

The statutory system of public school support has its roots in the historical development of the concept that education generally and the public schools specifically, because of their fundamental importance to the citizens of the state, should have first call on state revenues. Thus the California Constitution includes the following provisions:

> SECTION 5. The Legislature shall provide for a system of common schools by which a free school shall be kept up and supported in each district at least six months in every year, after the first year in which a school has been established.
>
> SECTION 6. . . . The Public School System shall include all kindergarten schools, elementary schools, secondary schools, technical schools, and State colleges, established in accordance with law and, in addition, the school districts and the other agencies authorized to maintain them. No school or college or any other part of the Public School System shall be, directly, or indirectly, transferred from the Public School System or placed under the jurisdiction of any authority other than one included within the Public School System.
>
> The Legislature shall add to the State School Fund such other means from the revenues of the State as shall

> provide in said fund for apportionment in each fiscal year, an amount not less than one hundred and eighty dollars ($180) per pupil in average daily attendance in the kindergarten schools, elementary schools, secondary schools, and technical schools in the Public School System during the next preceding fiscal year.

It is possible that the term "technical schools" was at one time meant to refer to the community colleges, but there appears to be little basis for such an interpretation now. Assuming that it does not, there appears to be no constitutional barrier to appropriating state support for the community colleges through the annual budget act along with support for the University of California, the California State University and Colleges, this Commission, the Student Financial Aid Commission, and other institutions and activities that make up the state's system of postsecondary education.[15]

To accomplish this would require no more than that the provisions of the Education Code regarding the transfer of General Fund monies to the State School Fund be deleted and that those pertaining to allocation of support among the community college districts either be moved to the Administrative Code or incorporated in a set of budget instructions agreed upon by the Board of Governors and the Department of Finance. There is nothing in such a transfer that would require a significant change in the basis upon which state support is provided nor in other aspects of the method by which it is allocated.

Under a budgetary system employing the existing allocation formulas, the Chancellor's Office would be required, just as it is now, to estimate the amount of state support to be appropriated to the community college districts in the budget year according to projected enrollment and district assessed valuation data. The Governor's Budget that is submitted to the Legislature in January would include this amount for appropriation to the Board of Governors for distribution to the districts according to the established formulas.

There would be no change in the apportionment formula itself--no attempt to allocate state aid according to specific cost categories for individual colleges, for example. The principal difference between this budgetary system and the existing statutory system would be that in preparing and reviewing the Governor's Budget, the Governor and the Legislature could make such changes in the level of support

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15. The Attorney General has been asked for an opinion as to whether there is any constitutional or statutory obstacle to this charge and, if so, what would be necessary to remove it. That opinion has not yet been received.

as they deemed necessary and desirable without having to amend the Education Code.

The advantages of such a system are clear. Inasmuch as the budget act is ordinarily passed by the Legislature and signed by the Governor within a few days of July 1st, the districts could be much more confident than they are now of knowing how much state support they are to receive for the budget year at the time they must vote on their district budgets. Moreover, it would provide a degree of flexibility in adjusting annual appropriations to meet changing needs and circumstances that is totally lacking in the present system. The state would be able to respond to unforeseen enrollment changes, price fluctuations, and other circumstances within the normal budgetary process and without the need for special legislation. Moreover, the Governor and the Legislature would be able to deal more effectively with support for the community colleges as a part of the entire system of public and private postsecondary education in California. This is, indeed, the only way in which the Legislature can deal rationally with the impact of changes in spending by one segment on the operation and financing of the others. The Department of Finance and the Legislature's fiscal committees would be able to consider support for postsecondary education as a whole and as part of the state's entire General Fund budget rather than treating community college support as something apart, more closely related to continuing appropriations for the public schools.

A budgetary system would also enable the community colleges to be considered for support augmentations within the Governor's Budget rather than having to compete for any monies that may remain after passage of the budget act. Thus their equality with the University of California and the California State University and Colleges as postsecondary educational institutions would be given full recognition. In addition, the fiscal role for the Board of Governors would also be enhanced. In 1973 the Board of Governors was given responsibility for administering apportionments from the State School Fund to the community colleges, a responsibility previously assigned to the State Department of Education. A decision to make the Board responsible for a direct appropriation from the General Fund would complete the earlier action and give the Board standing in this regard comparable to that of the Regents of the University of California and the Trustees of the California State University and Colleges. Finally, the budgetary system would make it easier for the community colleges to propose, and the Governor and the Legislature to consider categorical expenditures for instruction or other purposes that, if successful, could later be incorporated within the general support appropriation.

Among the possible disadvantages of a budgetary system might be some loss of stability in state support, inasmuch as it would be less difficult to change the support formulas than it is at present.

Thus, the individual districts might feel less secure than they now do regarding state support. In view of the changes that have been made in the statutory system over the past four years, however, it is somewhat difficult to argue persuasively that such a system in any way guarantees financial stability to the community colleges.

Another, and probably more significant, disadvantage from the point of view of the community college districts is that if community college support were included in the annual budget act, they might have to accept the same treatment regarding enrollment estimates that the Department of Finance has established for the University of California and the California State University and Colleges. That is, when enrollment estimates prove to have fallen short of actual enrollment by more than 2 percent, the Department of Finance will consider appropriate adjustments in actual appropriations, drawing on emergency funds, for example, to meet unexpected growth. But the Department also requires UC and CSUC to absorb any difference of less than 2 percent without additional support. This rule also applies to any overestimates of enrollment; that is, the two segments may be required to give up state support if the estimates prove to be more than 2 percent too high.[16]

If the community colleges are included under this procedure it should be applied to individual districts (not colleges or, as in the case of UC and CSUC, systemwide) and by adjusting the following year's apportionment rather than that of the current year. The responsibility for enforcing this procedure should be assigned to the Board of Governors, which is now responsible for seeing that apportionments are corrected for actual enrollment data.

There is also the possibility that inclusion of the community colleges in the annual budget act will lead to greater state control of community college operations. Although there is nothing in the change itself that would make such a development inevitable, it must be considered to be a real possibility. In recommending that the Legislature direct this Commission to examine alternatives to the existing system of support, the Legislative Analyst said, among other things, that, "community colleges perform different missions (e.g., transfers to baccalaureate degree programs, occupational programs, apprenticeship programs, community service programs, police in-service training programs) each of which has different cost factors and should warrant different types and levels of support.[17] This suggests that

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16. In 1973-74 and 1975-76, for example, the California State University and Colleges were required to refund state support for this reason.

17. Analysis of the Budget Bill, 1975-76, Office of the Legislative Analyst, 1975, p. 810.

the Legislative Analyst may see the adoption of a budgetary system as a means to develop a much more detailed allocation formula, a step that would certainly increase the possibility of greater state control over community college expenditures.

At present, the fact that the allocation formula must be spelled out in statute is a very important constraint on the complexity of that formula. An administrative formula could become much more complex and detailed, comparable to the formulas that are employed in constructing the budgets of the University of California and the California State University and Colleges by their statewide and campus budget staff. It is important to understand, however, that there is nothing about a budgetary system that would require a change in the existing formula. As long as local governing boards are permitted to exercise real responsibility for the management of their colleges and are required to provide local tax revenues for their support, the state can play a much less significant role in the management of the community colleges than it does, for example, in the management of CSUC. Thus it can continue to appropriate support for current expense according to a relatively simple statewide formula rather than through detailed institutional or programmatic budgets.

SECTION 5

THE EXPERIENCE OF OTHER STATES IN FINANCING THE OPERATION OF TWO-YEAR COLLEGES

Most authorities on the development of two-year colleges warn that comparative studies among the states are of very limited value because the colleges in each state have developed under quite different circumstances, politically and financially. Nevertheless, in considering the strengths and weaknesses of California's system of community college support, we believe that it is also useful to look at the experiences of other states in dealing with the kinds of questions that are of concern to California at this time.

To this end, the study staff has reviewed the recent literature on community college finance from the national perspective, and, in addition, has selected for closer study eight states--New York, Illinois, Florida, Virginia, Texas, Colorado, Mississippi, and Hawaii--that represent a broad range of development, governance, and financing arrangements. The community college system in each of these states has been examined in some detail with respect to its organization, expenditure levels, state and local support ratios, state support formulas, local taxing authority, and student charges.[1]

Expenditures per Student

Although interstate comparisons may be misleading because of important differences in the financing mechanisms and enrollment measures used in each state, it is evident from the figures shown in Table 18 that the states included in the survey conducted for this study represent a significant range in expenditures per student. New York (excluding the City University of New York's community colleges), Illinois, and Texas are at the higher end of the scale, and Colorado, Mississippi, and Florida are at the lower end.

Although these levels of support are below the expenditures per student at most four-year colleges and universities, historical evidence indicates that the level of support for two-year colleges in the survey states has increased steadily, thus offsetting the effects of inflation and reflecting demands for new services. Because most of these states use enrollment-driven formulas based on average costs and most have recently adopted annual inflation factors, the growth of the two-year colleges' budgets has been faster than increases in support for many other state agencies. In New York, for example, state allocations to

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1. The survey of these eight states is described in Appendix G.

Table 18: State Support, Total Appropriations, and Total Appropriations per FTE Student for Two-Year Colleges and Postsecondary Technical/Vocational Schools Among Selected States 1974-75 or 1975-76

State	State Appropriation in Millions	Total Appropriations in Millions[a]	Percent of Total Appropriations Provided By State	FTE Enrollment	Total Appropriation Per FTE Student
New York	$81.4[b,d]	$223.8	36.4%	128,450[h]	$1,742
Illinois	112.7[c]	268.7[e]	41.9	156,883	1,713
Texas	144.0[c]	180.1[f]	80.0	108,720	1,656
California	491.3[c]	1,137.8	43.2	768,902[i]	1,480
Virginia	47.5[b]	59.4	80.0	44,962[h]	1,322
Colorado	20.9[c,g]	28.8	72.6	23,345	1,232
Mississippi	27.9[c]	47.7	58.5	37,841	1,261
Florida	141.4[b]	188.6	75.0	158,000	1,194[j]

a. Includes student financial aid.

b. 1974-75.

Table 18 - Footnotes continued

c. 1975-76.

d. These figures include only those colleges within the State University of New York. The financial crises in New York City make the City University's community colleges a poor measure for support per student.

e. The total expenditure is calculated by using estimates for FY 1977 for local taxes, tuition, federal grants, and "other." This information is contained in Illinois Community College Board, Fiscal Year 1977 Operating Budget Recommendations (Springfield, 1975), pp. 18-20. This was the best source available to the Commission's staff at this time.

f. This includes an estimated tuition revenue of $36,010,544 which is 20% of the total cost of community colleges. The 20% figure is the standard adopted by the Texas legislature.

g. State supported community colleges only.

h. This state supplied enrollment in terms of full-time and part-time students. FTE enrollment was calculated from this figure by assuming that 1 full time student is 1 FTE, while 1 part-time student is 1/2 FTE. While uniform for all states which calculate enrollments in full-time and part-time categories, this method undoubtedly overestimates the number of FTE students.

i. The California FTE is actually the Average Daily Attendance figure reported by the Department of Finance. Although FTE students and ADA are not exact equivalents, they are comparable enough for the purposes of this overview.

j. This expenditure per FTE student differs from the cost per FTE student of $1,257.18 given in Division of Community Colleges, Department of Education, Report for Public Community Colleges, 1974-75 (Tallahassee, Florida, 1976), p. 68. Rather than adopting the Florida system's method of calculating full costs, the expenditure per FTE for Florida was calculated in exactly the same way applied to all other states.

community colleges have risen almost 50 percent since 1971-72. During the past 15 years, the public junior colleges in Texas have increased their share of legislative appropriations for higher education from 8.3 percent (1961-62) to 16.5 percent (1976-77).[2]

The effects of the nationwide recession in 1973-74 on state budgets, increasing competition from other government programs, and voter opposition to further tax increases, however, have forced most of the survey states to limit enrollment in some way as an alternative to lowering their level of support per student for two-year colleges. Florida is a good example. The state provided funds for 143,000 FTE students in the 1974-75 budget, but actual enrollments rose to 158,000 that year. Under the Florida budget formula, the extra 15,000 students were divided into the state appropriation for 1974-75 to determine the cost per student as a basis for state support in the following year. "As that process continued," reported The Chronicle of Higher Education, "the support per student would keep going down, so the presidents of the community colleges called for a halt."[3] Virtually all of Florida's twenty-eight community districts pared back their offerings for 1975, and college officials estimated that 5,000 students failed to enroll because of such measures.

State and Local Sharing of Operating Costs

Before 1960, most public two-year colleges "were submerged in public school systems, lacking identity, clarity of purpose, and political potency."[4] In 1950, almost all public two-year colleges were supported in the same way as primary and secondary schools, and most were actually governed by the public school systems. Although vestiges of this link still remain, virtually all community college systems

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2. New York State Education Department, A Summary of Major Changes in the State's Higher Education System (Albany, 1976), p. 5. Illinois Board of Higher Education, Data Book on Illinois Higher Education (Springfield, 1976), p. 83. Statistical Supplement to the Annual Report of the Coordinating Board, Texas College and University System for Fiscal Year 1975 (Austin, 1975), p. 151.

3. The Chronicle of Higher Education, March 29, 1976.

4. Richard Richardson, et al., The Governance of Two-Year Colleges (Englewood Cliffs, N.J., 1972), p. 10. As junior colleges broke away from the secondary schools, however, the pressures grew to charge tuition comparable to colleges and universities. See James L. Wattenbarger and Bob N. Cage, More Money for More Opportunity (San Francisco, 1974), p. 19.

are now governed separately and most have also changed the funding mechanisms for their two-year colleges to resemble those of their other colleges and universities. Many states have adopted budget review procedures with line-item appropriations, categorical aid to encourage certain kinds of activities, differential cost accounting among programs, and student aid grants, all of which follow long-established patterns for four-year institutions.[5]

An important consequence of this trend toward funding mechanisms similar to other institutions of higher education is that the state's share of support for community colleges is gradually increasing and the local share is decreasing in most states. This has also been a consequence of increased concern about disparities in taxable wealth among the local districts. This concern has led most states with state-local sharing to develop complex equalization mechanisms to achieve some degree of tax equity. In some states, the complexities of such equalization mechanisms have provided strong incentives to consolidate the collection and distribution of revenues for community colleges at the state level.

In addition, the enormous enrollment growth of the community colleges in the 1960s and their emergence as a recognized part of higher education caused many states to abandon local support and to widen the tax base to the entire state. Among the states surveyed for this study, the movement toward state assumption of two-year college support has been strongest in Colorado, Virginia, Illinois, and Florida.

Rather than abolish local districts, the Colorado legislature decided in 1967 to create a dual system in which existing colleges could maintain their local tax base or join the state college system. The motivation behind this decision was a very practical one. Because "vast areas are sparsely settled and . . . natural barriers complicate transportation patterns," it was believed that only the urban areas of Colorado could support districts compact enough to allow commuting to college.[6] It was also believed that only a state system could provide the necessary tax revenues for remote areas and thus insure an adequate community college education for most Coloradans.

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5. Lawrence H. Arney, State Patterns of Financial Support for Community Colleges (Gainesville, Florida, 1970), p. 9. S.V. Martorana and W.G. McGuire, State Legislation Relating to Community and Junior Colleges, 1973-75 (Pennsylvania State University, 1976), p. 41.

6. Colorado Commission on Higher Education, Planning for the 70's (Denver, revised in 1971), p. 27. Frederick C. Kintzer, Middleman in Higher Education (San Francisco, 1973), p. 109.

Virginia had no two-year college system before 1966, and acted to establish a statewide system at the outset. As a consequence, Virginia has one of the most centralized two-year systems in the United States. Each of the state's 23 two-year colleges has a local advisory committee, but they are all governed by the State Board for Community Colleges. Whatever the disadvantages of such centralization, the state's ability to shift funds from one college to another has helped it to solve what in the view of one state official is "the most serious problem" in educational finance: "the proper allocation of funds to cover the special needs of the individual colleges and to ease the financial pressures of over-enrollments."[7]

Although recent changes in the Illinois community college system have left state-local sharing intact, strong sentiments for consolidation linger among those who manage the state's system of postsecondary education.[8] While they believe that the colleges should have enough flexibility to devote a portion of their courses to local needs, they also think that there should be uniform standards for the majority of courses. "From a broad perspective . . .," states the Illinois Master Plan, "it is assumed that the programs and services of all community colleges will be similar."[9]

The success of the Illinois system has, ironically, been its major problem. The aggressive expansion of colleges into nontraditional areas and the large numbers of part-time students (an increase from 111,102 in 1972 to 188,362 in 1974) are prime concerns for state officials.[10] In 1974, the Illinois Board of Higher Education declared that community colleges "must relate their aspirations to overall statewide policies and priorities that apply to all postsecondary education institutions," a frank suggestion to limit growth.[11]

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7. Response to CPEC survey from Daniel Crooks, Director of Administration and Finance, Virginia Department of Community Colleges, October 13, 1976.

8. Illinois Board of Higher Education, Committee to Study Public Community College Financing, "Committee Report on Financing Public Community Colleges" (mimeographed, May 1975).

9. The Illinois Board of Higher Education, A Master Plan for Postsecondary Education in Illinois (Springfield, 1976), p. 50.

10. Illinois Board of Higher Education, "Committee Report on Financing Public Community Colleges," p. 10.

11. Illinois Board of Higher Education, "Role and Scope of Community Colleges," Item #13 (October 1, 1974), p. 4.

Faced with the Governor's cutback of support for students in courses teaching developmental and vocational skills in 1975-76, the Community College Board called on administrators to "focus attention away from individual district funding levels and toward a system philosophy of community college programs and services.[12] The 1976 Master Plan now distinguishes between "programs of statewide concern and those which are more locally oriented" by identifying eight categories of instruction and proposing different levels of state funding for each of them.[13] The proposed Illinois mechanism of differential financing based on the statewide importance of individual programs represents a middle ground between strict local autonomy and statewide funding.

Florida is perhaps the best example of a system of divided financial responsibility. In 1968, the Legislature established independent local boards of trustees and authorized those boards to assume corporate authority. Four years later, the Legislature removed financial

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12. Illinois Community College Board, "Summary of Community College Funding Proposals for Fiscal Year 1977" (Springfield, 1976), p. 2.

13. Ibid., p. 8. The Board suggested that the procedure for determining flat grant rates from the state be as follows:

    1. Estimate the cost per credit hour for each of the eight instructional categories for FY 1977 (Baccalaureate oriented, health professions, etc.).
    2. Determine the "local contribution" (local taxes, tuition, federal sources) and dividing by the projected number of credit hours for FY 1977.
    3. The state would fund the difference between credit unit cost and "local contribution" in those programs determined to be of statewide importance.

    The Board further declared that "the State of Illinois should be funding a greater portion of the operating costs of Illinois public community colleges . . . [at least] one half the average operating costs." ("Summary of CC Funding Proposals," p. 5.) As Table 18 indicates, the State of Illinois supplied 42 percent of the operating expenditures of community colleges in 1975-76 through the flat grant method. "The state should move toward state funding of 75 to 100 percent of annual operating expenses," according to educational finance expert M. M. Chambers of Illinois State University (response to CPEC survey, June 14, 1976).

responsibility from the boards, although each of the 28 college districts remained an independent legal entity with "the powers necessary for [the boards'] governmental operation for their respective college."[14] Since that time, the local boards have continued to exercise authority over faculty policies, curriculum and program priorities and limited responsibilities for capital outlay planning, with the budgeting system and responsibility for the establishment of educational goals centralized at the state level.

The Florida system has been described as one in which "local appointed boards . . . have a high degree of local autonomy,"[15] but they operate within budgetary limitations established by the state. Further, the boards can be severely undercut by administrative decisions made in Tallahassee. In 1974-75, as described above, the state support formula forced the districts to absorb 15,000 additional students without an increase in state aid, lowering the per-student support base for the next fiscal year. This constraint has been widely criticized by educators and local boards alike. Similarly, a major issue arose five years ago concerning the amount of time instructors were spending in the classroom. The result was a controversial statute requiring 15 contact hours per week for community college instructors, a standard that was built into the support formula in subsequent years.[16]

Financing Mechanisms for Two-Year Colleges

Policy makers for two-year colleges in the surveyed states have experimented with a variety of formulas to determine the amount of support for each institution. Before the emergence of the community college concept, most formulas specified flat dollar amounts per student, distinguishing only between "college age" and "adult" students and between those in academic courses and those in technical-vocational courses. These simple formulas have recently been replaced by much more complex methods.

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14. Florida Community Colleges, Position Paper I for the Florida Public Postsecondary Finance Committee (September 1975), p. 1. Department of Education, Division of Community Colleges, Report . . . for Florida, 1974-75 (Tallahassee, 1975), pp. 1-2. James L. Wattenbarger, "State Control of Junior Colleges," Junior College Journal, 42 (October 1971), p. 42.

15. Goldhagen, May 21, 1976.

16. Ibid.

Two recent developments have encouraged states to adopt more elaborate financing mechanisms and to make detailed distinctions among programs and students. The first was the spread of sophisticated cost accounting methods into the realm of education. Second, as two-year colleges expanded into many nontraditional fields, policy makers--especially legislators and state budget analysts--became convinced that it was in the public interest to encourage certain kinds of education and certain kinds of people to attend two-year colleges. Rather than mandating these policies through statutes, the finance mechanisms were often used to provide positive incentives.

The Florida system of finance provides a good example of one that relies heavily on detailed cost analysis. Community colleges receive allocations through a program funding process based upon the historical costs of current operations. An annual cost analysis is performed by each college to examine the records, carefully compiled during the year, of the unit costs for each course. These costs are then aggregated into discipline costs and finally into broad curriculum program costs. Finally, a statewide average cost per FTE student is computed and a cost ratio for each discipline is calculated by dividing the cost of each discipline by the statewide average cost per FTE student. A statewide average cost per FTE student is then calculated with additions for inflation and equipment costs and deductions for student fees and federal funds. This statewide average cost is then multiplied by the previously established cost ratio for each discipline to produce for the budget year, the projected cost per FTE student in each discipline. The colleges then submit projections of their enrollments in each discipline, and these enrollments are multiplied by the average cost per FTE student for the budget year and the cost ratio for each discipline. The amounts in each discipline category are then totaled to produce the entire college's allocation for the next fiscal year.[17]

This method has the advantages of recognizing substantial differences in costs among programs, institutions of different sizes, variations in statewide and regional economic conditions, and the costs associated with remedial instruction and counseling services. It also provides better opportunities for management planning, allows meaningful cost comparisons among institutions, and encourages careful cost accounting on the campuses.

Cost account financing, however, has some important disadvantages. It encourages uniformity among similar programs in the community

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17. For a fuller explanation of this process and examples of the derived discipline costs for 1973-74, see Appendix I.

colleges system which might be inappropriate for local needs. It tends to lock some programs into high costs and does not encourage such programs to be more efficient. It discourages innovations in lower cost programs since the cost of such changes are not reflected in past costs. Finally, although the Florida Department of Education can make periodic adjustments during the fiscal year as actual FTE student enrollments are reported, these adjustments are redistributions within the college system. The total amount of operating revenues available for the colleges remains fixed throughout the fiscal year unless the Legislature acts to change it. Thus, an unexpected enrollment increase will cause the average level of support to go down and this will be perpetuated in the next fiscal year's budget.

The cost-analysis model attempts to determine program costs objectively without making judgments about the value of programs. Most states, however, have established different funding levels for different programs based, to a substantial degree, on judgments about their contributions to the society as a whole. The proposed Illinois plan represents an elaborate effort to distinguish programs within a formula that identifies eight categories of credit classes, with noncredit classes (community education, public service, and research activities) as a ninth category.[18] For every credit hour of instructional category, the state will make flat grants per credit hour for a certain percentage of the difference between the statewide average cost in the system for that category, as adjusted for inflation, marginal cost savings, and productivity savings, and the standard local contribution calculated from statewide average property taxes, tuition and fees, and other local revenues. The state is to finance 100 percent of this difference for the first seven categories, fifty percent for the eighth category ("other general studies"), and provide no support for the ninth category (noncredit classes). Additional support for the eighth category and the total costs for activities in the ninth category are to be financed from local taxes, student fees, and other revenues.[19]

Unlike the Illinois plan, where there is no attempt to conceal the value judgments about programs, many states cover over such value

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18. The eight categories are: baccalaureate courses; business, public service and personal service courses; data processing and commerce technologies; natural science and industrial technologies; health professions; review of vocational skills; remedial-developmental general studies; and other general studies.

19. Illinois Board of Higher Education, "Committee Report on Financing Public Community Colleges," p. 10.

judgments with rough estimates of cost differences. For instance, seven of the eight survey states provide higher support for enrollment in technical and vocational fields than enrollment in academic courses, presumably because the former are more expensive. For example, Colorado provides $700 per FTE student in local district colleges, plus $475 for each FTE occupational student. New York pays an additional $150 per year for each FTE student in technical programs. Virginia provides one teaching position per 15 FTE students for occupational-technical and foundation programs and one instructor per 20 students for college transfer programs.[20]

These differentials appear to have been established on the basis of relatively superficial cost-analyses. The range of differentials certainly indicates that the states are not using common, objective measures to establish their formulas. Thus, the Mississippi legislature has directed that vocational programs receive less district support than academic programs, although categorical grants equalize the amounts.[21] Although most states have attempted to estimate the unit cost differences between vocational and academic courses, there are certain obvious incentives built into the formulas that represent subjective judgments about the value of the courses to the state.

In addition to the academic-vocational distinction, all survey states draw a sharp line between academic-vocational courses and avocational-recreational offerings. Generally, the latter are provided at full cost to the student or to the district because the benefits are believed to accrue principally to the individual student. Although enrollments are increasing in avocational-recreational courses, the states have decided that the financial burden should not fall on the public as a whole.

The major difference among the states concerning the financing of noncredit courses is in regard to the authority responsible for assigning courses to one category or the other. Those states with district governance tend to rely upon negotiations between state and district officials to develop guidelines for this purpose. On the other hand, those states with centralized financing, have more formal

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20. Colorado State Board for Community Colleges and Occupational Education, "Guidelines for Reporting and Support Claims for FTE Enrollments . . ." (Denver, July 10, 1975), p. 5. Response to CPEC survey from Cornelius Robbins, Associate Chancellor of Community Colleges, State University of New York, July 13, 1976. Daniel Crooks, State of Virginia, October 13, 1976.

21. Francis Geoghegan, June 29, 1976.

mechanisms for approval. In Virginia, for example, "All credit courses offered throughout the system must be approved at the State Department [of Education] level and carried in the State Curriculum Guide."[22]

Tuition and Other Fees

Despite formal commitments to "open access," all the survey states assume that community college costs should be shared between the public and the students. Tuition levels vary widely, however, not only among the states but also among colleges within each system, as Table 19 shows.

There are several interesting findings regarding these tuition levels. One is that those states with the highest tuition also provide the highest level of support per FTE student (See Table 18, pages 74 and 75. Second, tuition policy appears to be determined largely by traditions surrounding higher education within each state. The high student charges in New York are predicated upon a long-standing policy according to which the state is to provide one-third of the cost of the colleges, the districts one-third, and the students one-third.[23] Obviously, those states like New York, where the public institutions have developed in the shadow of distinguished private universities, tend to have higher tuition than those states, such as Hawaii, where public education has been predominant from the beginning. Finally, most states attempt to establish tuition as a certain percentage of the total educational cost, with the result that tuition increases as educational costs increase. Although the increase in fees has been a restraint on access to postsecondary education officials in several states believe that the policy of increasing tuition as costs increase is the best method of bringing pressure on educators to be more efficient and to keep expenditures down.[24]

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22. Daniel Crooks, State of Virginia, October 13, 1976.

23. One of the recommendations in the New York Board of Regents, "Committee Report on the Financial Problems of Postsecondary Institutions" (1975) is that the "net tuition differential between public and independent institutions be stabilized." This invariably means raising the tuition at public institutions. See also Carnegie Council on Higher Education, Low or No Tuition, (Berkeley, 1975), pp. 11-14. Response to CPEC survey from William B. Chapman, University of Hawaii, April 23, 1976.

24. William Adrian of Colorado commented: "By relating tuition to costs the Legislature feels it is providing an incentive to keep costs down while also supporting the principle that resident students should pay a proportionate share of the costs" (Response to CPEC survey, June 4, 1976, p. 3).

Table 19: Resident and Non-Resident Student Fees for Two-Year Colleges in Selected States, 1976-77

State	Number of Colleges Reporting[1]	Resident Student Fees Per Full-Time Student 1976-1977	Range For Resident Student Fees	Non-Resident Tuition and Fees Per Full-Time Student 1976-1977[2]
Colorado	4	$348.25	$250 - $520	$1,350
Florida	19	368.47	288 - 450	723
Hawaii	6	90.00	90	925
Illinois	14	372.86	200 - 480	2,132
Mississippi	5	358.60	220 - 704	734
New York[3] (state only)	30	599.67[3]	420 - 650	1,203
Texas	8	234.50	170 - 290	838
Virginia	19	314.58	300 - 406	1,004

1. With one exception, these are colleges that responded to a survey by the College Entrance Examination Board reported in The Chronicle of Higher Education, April 5, 1976, pp. 13-17.

2. This column combines the resident student fees and out-of-state tuition in order to arrive at the total charges for non-residents.

3. For 1975-6. State University of New York, Final Report of the Trustee's Committee on the Special Problems of Community Colleges, Appendix.

Source: The Chronicle of Higher Education, April 5, 1976, pp. 13-17.

TABLE 20: Percentage Distribution of Financial Support for Operating Expense for Two-Year Colleges Among Selected States, 1973-74

State	Local Support	State Support	Student Fees	Federal Aid	Other
California	52%	42%	0[a]	6%	0
Colorado					
State	0	69	20	11	3
Local	52	30	22	2	0
Florida	0	70	21	6	3
Hawaii	0	83	0[a]	13	4
Illinois	40	40	17	2	1
Mississippi	20	52	14	12	2
New York State	43	35	18	4	0
Texas	20	56	17	4	3
Virginia	0	72	17	10	1

a. Less than 1 percent.

Source: James L. Wattenbarger and Paul M. Starnes, "Financial Support for Community Colleges, 1974" (Gainesville, Florida, 1974), pp. 18-19.

CONCLUSIONS

It is evident from our survey data that the states have responded quite differently to the dramatic growth of their two-year colleges, rising costs, and the conflicting demands for local autonomy and state control. But despite the array of finance mechanisms among these states, most of the surveyed states appear to be moving toward financing based on some cost-analysis of instructional programs, toward formulas that include judgments about the importance of those programs to the state, toward higher state shares for two-year college

operations, and toward formula incentives for enrollment of minority students.

Over the years, moreover, the burden of support has gradually shifted away from local districts to the state and to students through tuition charges. Faced with large enrollment increases and rapid inflation, the states have diversified the sources of revenue for two-year colleges and spread the tax burden more widely among citizens and students. Because such colleges often grew from the public school system, court decisions regarding equalization of the tax burden and the recent literature about the issue of quality education has served to encourage the states to move away from local property taxes as the major source of community college support.

SECTION 6

CONCLUSIONS AND RECOMMENDATIONS: SUPPORT FOR CURRENT EXPENSE

The present system of support for the community colleges, as it has evolved over the past 70 years, has enabled California to build and maintain a system of two-year colleges second to none. In the last two decades, the spending stream has grown to a volume sufficient to support a 235 percent increase in total enrollment and the development of the broad range of programs demanded by students with extraordinarily diverse interests and needs. And, although the full effect of the new formula for state aid is as yet unknown, it is clear that it provides assurance to the districts of a continuing, state participation in the financing of the community colleges.

The principal questions, then, are what may be done to further strengthen this system of support and what changes, if any, should be made with respect to the share of the total cost borne by the state, the districts, the counties, the federal government, and the students. The following recommendations represent the Commission's response to these two questions.

Recommendation 1

> *We recommend that the new state support formula be modified to ensure continuing equalization of the tax burden among the community college districts. This may be accomplished by apportioning to each district an amount equal to the previous year's statewide average apportionment per ADA multiplied by an equalization factor, an inflation factor, and the district's ADA for the current year.*

In the new formula, the only amounts against which an equalization factor is applied are the inflation factor and the allowance, if any, for enrollment growth. The principal amount apportioned to each district is simply the amount that was apportioned to it in the preceding year. Although this amount was originally (1975-76) determined according to an equalization formula, there is nothing in the new formula to continue to make adjustments in that amount as the district gains or loses assessed valuation per ADA. Thus, as some districts rise in assessed valuation per ADA and other districts fall as a consequence of differential rates of change for assessed valuation and enrollment, there will be continuing erosion of equalization among the districts.

To correct this important flaw, we recommend that the new formula be modified so that the basic amount apportioned to each district

not be based upon its apportionment for the preceding year but be the statewide average apportionment per ADA for the preceding year multiplied by an equalization factor, a six percent inflation factor, and the district's ADA for the current year.[1] The equalization factor would be the same as that now applied to the inflation allowance and to support for any enrollment increase.

This is a major and important change that is essential to ensure that all state support is equalized from year to year, not just that support that is allocated for price increases and enrollment growth. Without such a change, much of the gain in tax burden equalization that has been achieved in recent years will be lost.

Recommendation 2

We recommend that the new state support formula also be modified to reduce the impact of enrollment losses on low-wealth districts.

The enrollment estimates that were used to calculate the initial apportionments under the new formula for 1976-77 indicate that all but 14 districts may lose ADA in 1976-77 as compared with 1975-76 and that the statewide average may be a loss of between 5 and 6 percent, with some districts losing by as much as 15 to 20 percent. Under the new state formula (which was drawn up with the expectation that most districts would continue to gain enrollment for several years), districts that lose enrollment lose state support in proportion to their enrollment losses. A high-wealth district that received $200 per ADA in state support in 1975-76, for example, will lose $200 in state aid in 1976-77 for each unit of ADA that it loses. Similarly, a low-wealth district that received $800 per ADA in 1975-76 will lose state support for 1976-77 at the rate of $800 per ADA.

Inasmuch as it is usually impossible for districts to reduce their costs immediately in proportion to substantial enrollment losses, this aspect of the new formula is likely to work a serious hardship on low-wealth districts. Not only do such districts lose state support at a higher rate than relatively wealthy districts, but they also do not have the tax base from which they can draw a compensating increase in local support until their costs are brought down.

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1. The ADA count used to compute the statewide average apportionment should be the count used to calculate state aid. The SB 1641 formula and the changes proposed in recommendations 1 and 4 are compared in Appendix C.

Accordingly, we believe that the revised formula that we have recommended above should also include a factor that will offer temporary relief to low-wealth districts that lose enrollment by reducing the amount of state aid they will lose. We believe that an acceptable loss adjustment factor would be one that would reduce the effective loss in state aid by 0 to 50 percent, according to each district's assessed valuation per ADA, for districts below the statewide average in assessed valuation per ADA that report enrollment losses of more than 2 percent per year.

Recommendation 3

In the absence of action on our first recommendation, we recommend that the new state aid formula be amended to delete the provisions according to which the equalization factor is applied to the inflation factor in calculating each district's basic apportionment.

As described in Section 2 (page 13), the new formula provides that each district's basic allocation (if it has not lost enrollment) is equal to the sum of its apportionment for the preceding year and the product of that amount multiplied by an inflation factor and an equalization factor, with the total then increased by a demographic factor. As a consequence, the amount that each district receives as an inflation allowance under this part of the formula depends upon its relative wealth per ADA. This, we believe, is a misapplication of the equalization concept. The inflation factor should be applied uniformly to the apportionments to all districts regardless of their relative wealth, for all are affected equally by inflation. The formula as now written will eventually result in significant distortions in the apportionments among the districts.

This can be demonstrated by the following example, in which District A is a low-wealth district, District B is an average-wealth district, and District C is a high-wealth district, and total state and local support for all three for 1975-76 was $1,400 per ADA. If the inflation factor is equalized so that District A receives a 12 percent adjustment, District B a 6 percent adjustment, and District C a 3 percent adjustment, and all districts raise their own contributions by 6 percent, then the following will result:

	District A	District B	District C
1975-76:			
District Share	$ 350	$ 700	$ 1,050
State Share	1,050	700	350
Total	$ 1,400	$ 1,400	$ 1,400
1976-77:			
District Share	$ 371	$ 742	$ 1,113
State Share	1,176	742	361
Total	$ 1,547	$ 1,484	$ 1,474

If, instead, each district's state aid were increased by 6 percent, then the result for 1976-77 would be:

	District A	District B	District C
District Share	$ 371	$ 742	$ 1,113
State Share	1,113	742	371
Total	$ 1,484	$ 1,484	$ 1,484

All three districts would end up with the same amount of total support per ADA, and the relationships among them with regard to state equalization aid would remain the same. To maintain this relationship under the SB 1641 formula, District A would have to reduce its contribution by 12 percent, and District C would have to raise its share by 7 percent.

Thus we believe that in the absence of the modifications proposed in our first recommendation, the equalization factor should be dropped from that part of the formula concerned with each district's basic allocation. This should be done both for districts that experience some growth and for those that do not.

Recommendation 4

We recommend that the demographic factor in the new state aid formula be dropped pending further study and justification. We further recommend that the $4 million appropriated for this purpose be added to support for the community college EOPS program.

The so-called demographic factor is said to have been added to the new formula prior to passage of SB 1641 for the purpose of providing

some additional state aid to districts with unusually high operating costs because of the socio-economic characteristics of the communities they serve. These special characteristics were not identified, however, nor were the specific additional costs that they were said to entail. It was not possible, therefore, to rank the districts according to their need for additional support. Instead, it was decided to distribute $4 million in supplementary state support (largely without regard to equalization) in inverse proportion to community college enrollment as a percentage of total adult population in each district.

No evidence has been produced to link participation rates to operating costs, operating costs to the socio-economic characteristics of individual districts, or specific socio-economic characteristics to the need for this supplementary aid. Thus, there is no way to evaluate the potential impact of the so-called demographic factor except as a device for distributing an additional $4 million in state support largely for the benefit of districts in which, for a variety of reasons, community college enrollment is a relatively small percentage of the total adult population.

We do not believe that an expenditure of $4 million can be justified in this fashion, and, therefore, we recommend that the demographic factor be deleted from the new state apportionment formula. If the additional aid is needed to support programs and services for students from low-income families, as has been stated by the Chancellor's Office, then it should be added to state support for the Extended Opportunity Programs and Services (EOPS). This program, which has been in operation for seven years, has been found to be an important means of enabling the community colleges to provide financial aid and supporting services to disadvantaged students. An augmentation of $4 million would permit a greater expenditure for student services, which now receive only about 44 percent of EOPS support.

Recommendation 5

We recommend that state support for noncredit classes be limited to those classes identified by the Legislature in statute or by the Board of Governors as being of sufficient statewide interest to justify state support. To the extent that implementation of this recommendation results in substantial reductions in state aid for districts with large adult programs, it should be accomplished over a two-year period and the districts permitted increases in their tax rate ceilings.

The new state aid formula provides for equal state support for credit and noncredit classes, except for noncredit classes that are supported

by other agencies or organizations or by student fees. In practice, this means that nearly all ADA for noncredit classes is reported for state support, even though there may be little or no evidence of more than a local interest in providing many of those classes.

Noncredit classes are frequently a major element in continuing (adult) education, and continuing education is an integral part of the mission of the California Community Colleges. It is generally conceded, however, that there are some noncredit classes that are offered primarily in response to local needs and for which some combination of student fees and local support is appropriate. Such classes may be added to the curriculum in response to short-term recreational or avocational interests of district residents or to satisfy other needs that are not adequately served by the districts' regular occupational and academic curricula.

For years, the state has sought to differentiate between programs of general state interest and programs principally of local interest for purposes of apportioning state aid. These efforts have been largely unsuccessful, however, because they have sought to relate the level of support to the age and course load of the students, their apparent motivation, or necessarily imprecise definitions of course objectives. We believe that these problems can be avoided by employing the distinction between credit and noncredit classes adopted by the Board of Governors and applied by the districts. State aid should be limited to all credit classes approved by the Board of Governors, plus (1) any noncredit classes in subjects that the Legislature has identified in statute as being of state interest, and (2) noncredit classes identified by the Board of Governors as being of sufficient statewide interest to justify state support.

All other noncredit classes should be supported from local revenues, student fees, or some combination of the two to be determined by the individual districts. This will give the districts full opportunity to provide such classes according to local demand without raising questions as to the desirability of state support. Such a change, as noted earlier, will not have a substantial impact on existing financial arrangements, but it would provide a rational solution to a problem that has been a source of controversy for more than a decade.

This recommendation will not jeopardize state support for classes that are a part of approved occupational programs or for classes in English and citizenship for aliens, classes in elementary subjects, or classes leading to high school diplomas for students without diplomas. Nor will it jeopardize state support for noncredit classes for which the districts can make a strong case for such support before the Board of Governors.

In all probability, however, the withdrawal of state support for other noncredit classes will have the greatest effect in those districts that have developed the largest state-aided noncredit programs. For this reason, it may be desirable to accomplish this change over a two-year period and to allow those districts an appropriate increase in their tax rate ceilings.

It will be the responsibility of the Board of Governors, of course, to see that this action does not simply result in the reclassification of all noncredit classes as credit classes. To this end, the Board of Governors should establish guidelines for determining which noncredit classes are eligible for state support and which are not.

Recommendation 6

We recommend that the community colleges remain tuition-free for credit classes and that other student charges for noninstructional services remain at a minimum.

Unquestionably, the policy of not charging tuition for enrollment in courses leading to a degree or an occupational certificate has been a major factor in creating a system of community colleges in this state that serves students from all backgrounds. Nevertheless, the continuing rise in local property taxes and opposition to any increase in state tax rates has led some to believe that the adoption of a tuition charge for all community college classes is inevitable. The advocates of tuition have yet to make a strong case for such action, however, and we believe that all community college classes approved for credit should remain tuition-free.

All other costs of attending college are sufficiently high, and student financial aid sufficiently limited as to ensure that all but the most needy students must now make a sizeable contribution to the cost of their education. Any further increases in that cost at this time would very likely curtail educational opportunities unnecessarily.

Recommendation 7

We recommend that the present statutory system of state support for the community colleges be changed to a budgetary system that will permit and encourage the annual review of their support as an integral part of the state's system of public postsecondary education. This should be done without making any significant changes in the apportionment formula other than those recommended above.

The present statutory system of state support for the community colleges grew out of the system of support for the public schools, of which the community colleges were long considered to be a part. Since 1960, when the community colleges were clearly identified as part of the state's public postsecondary education system, the statutory system has become increasingly inappropriate. It denies the community colleges equal treatment with the University of California and the California State University and Colleges as postsecondary institutions, and it makes it impossible for the Governor and the Legislature to deal with the community colleges as a part of California's entire system of public and private postsecondary education.

We believe that a budgetary system can and should be adopted without any significant changes in the present state aid formula other than those recommended above. This can be accomplished by transferring the apportionment provisions from the Education Code to a set of budget instructions agreed upon by the Department of Finance, the Board of Governors, and the Legislature.

Adoption of a budgetary system of support will give the Governor and the Legislature the ability to respond to enrollment changes, cost fluctuations, new program developments, and other important matters within the regular budget process rather than through special legislation. It will also enable them to consider state support for postsecondary education as a whole rather than as unrelated parts. Moreover, it will require the Governor and Legislature to review community college support annually rather than only as major problems arise.

Adoption of a budgetary system will require the Chancellor's Office to be prepared to explain the workings of the state support formula, to present the enrollment and other data upon which support costs are estimated, to have up-to-date information on community college income and expenditures, and to answer questions as to the effectiveness of the support system with regard to equalization, adequacy of support, the local tax burden, and other matters. It will also require the Chancellor's Office, the Department of Finance, and the Legislative Analyst to be prepared to explain and justify any proposed changes in the support formula and to respond to questions as to how proposed changes in state support for the other segments of postsecondary education may affect the costs of support for the community colleges.

We do not think that a more elaborate budgetary formula, such as one incorporating a schedule of support per unit of ADA related to instructional program categories, is appropriate to state support for the community colleges under the existing system of governance. And it would be inappropriate, clearly, for the Governor or the Legislature to review the budgets of the individual districts. Thus, the

change we propose should result not in any diminution of local responsibilities but in a significant improvement in the state's ability to manage its resources and to respond more effectively to the needs of the community colleges and those they serve.

Moreover, it will ensure that any major changes in state support will be made prior to the time when district governing boards must act upon the total annual support budgets for their districts. Inasmuch as state support is only a portion of the total support required for the community colleges, we believe it appropriate that the level of state support be determined before the district budgets must be approved so that support from other sources can be adjusted accordingly.

PART II

SUPPORT FOR CAPITAL OUTLAY

SECTION 1

DEVELOPMENT OF THE PRESENT SYSTEM OF SUPPORT FOR CAPITAL OUTLAY

Until 1961, all support for community college capital outlay came from local sources: district bond funds, current tax revenues and interdistrict "seat tax" payments. The common practice for community college districts was to obtain voter approval of bond issues for specific construction projects and to pay the bond interest and redemption costs from a special tax rate for that purpose. Although the community colleges were eligible for state aid under the State School Building Aid Program, none had reached the level of bonded indebtedness necessary to obtain aid under that program.

Concerned that the community colleges would be unable without some assistance to accommodate the rapid growth that was projected for the next fifteen years, the Master Plan Survey Team recommended in 1960 that the Legislature enact a continuing program of grants or loans for community college capital outlay. The Legislature's immediate response was to establish a temporary program, the Junior College Tax Relief Act of 1961, which provided $5 million in 1961-62 and again in 1962-63 for payment of district bond interest and redemption costs and grants for new capital outlay projects. Under the terms of the 1961 Act this aid was allocated among the districts as "entitlements" in amounts calculated in inverse proportion to their assessed valuation per ADA.

This initial program was followed two years later by another temporary measure, the Junior College Facilities Construction Law of 1963, which was enacted to distribute $20 million in state bond proceeds from a bond issue approved by the voters in November 1962. This money, which was to be used for new capital outlay projects only, was distributed in much the same way as the first $10 million but with somewhat greater emphasis upon enrollment growth.

It was not until three years later that a continuing capital outlay support program was enacted. That was the Junior College Construction Act of 1965, which continued the district entitlement concept of the previous programs but also took into account each district's relative need for assistance. Each district's entitlement was based upon its projected growth, tax effort, and relative wealth, with average wealth districts entitled to $1 of state aid for each $1 of local expenditure. It was intended that this program would meet as much as 50 percent of the construction costs for community colleges, and the program was financed initially from the proceeds from $50 million state bonds approved by the voters in 1964.

During this period, federal aid also began to assume substantial proportions under the provisions of the Higher Education Facilities Act

passed by Congress in 1963. In 1964, the California Community Colleges received $3.8 million from this source, and in 1965 they received $7.8 million. Although this aid dropped off in subsequent years (Congress has not approved an appropriation since 1972), it was an important source of support to the community colleges at a time when the need for new facilities reached an unprecedented peak.

The basis for state aid changed significantly with enactment of the Community College Construction Act of 1967. This Act, which, with some modifications, remains in effect today, required the districts to prepare and submit ten-year (later changed to five-year) capital construction plans to be updated annually. In place of the entitlements of the 1967 Act, it provided for state support on a project-by-project basis subject to approval by the Legislature. Only the state-local matching system remained essentially the same as under the 1965 Act, and that was modified to the extent that the new Act required that any available federal aid be applied to each project prior to calculating the state and local shares of the project cost.

In June 1968, the voters approved $65 million in state bonds to finance the new Act, and in 1969 the Legislature appropriated an additional $26.9 million from the General Fund for this purpose. An additional bond issue of $160 million was approved by the voters in 1972 to finance the program through 1974-75, but a $150 million bond issue to continue state aid through 1977-78 was rejected by the Legislature in 1975, and a proposed $200 million bond issue was defeated by the voters in June 1976. Thus there is considerable uncertainty at present as to the source of state aid for future construction projects. Lacking bond funds, state aid must now be drawn from the General Fund or from the Capital Outlay Fund for Public Higher Education (COFPHE), a source that prior to 1975-76 was used almost exclusively for capital outlay for the University of California and the California State University and Colleges.[1]

Table 21 shows total capital outlay expenditures reported by the districts from 1970-71 through 1975-76, indicating an increase of nearly $100 million by 1974-75 and the beginning of a decline the following year. Until recently, the greater part of the state aid received by the districts has been deposited in district general funds, while the building and special reserve funds have been supported from local tax revenues and other local income. In 1974-75 and 1975-76, however, nearly all state support has gone into the building and special reserve funds.

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1. The Capital Outlay Fund for Public Higher Education is financed from tidelands oil revenues.

Table 21: Community College Capital Outlay Expenditures By District Fund 1970-71 through 1975-76 (In Millions)

Year	District General Fund	Building Fund	Special Reserve Fund	Cafeteria & Dormitory Funds	All Other Funds	Total All Funds
1970-71	$35.4	$30.0	$33.6	$0.7	$ -	$ 99.7
1971-72	45.8	20.3	34.2	0.9	-	101.2
1972-73	40.2	25.6	42.3	0.8	-[1]	109.0
1973-74	61.9	30.8	55.2	0.2	-[1]	148.1
1974-75	88.2	41.7	62.6	0.1	4.6	197.3
1975-76	75.7	28.6	74.7	0.1	1.4	180.6

1. Less than $1 million.

Source: State Controller, Annual Report of Financial Transactions Concerning School Districts.

SECTION 2

CHARACTERISTICS OF THE PRESENT SYSTEM OF SUPPORT FOR CAPITAL OUTLAY

The principal features of the present system of capital outlay support may be summarized very briefly. Under the provision of the Community College Construction Act of 1967, each community college district is required to prepare and submit to the Board of Governors every year a five-year construction plan detailing its future construction needs. The specific projects that are included in these plans may be proposed to the Board for inclusion in the Governor's Budget for the next fiscal year.[1] These project proposals are first reviewed by the Chancellor's Office and the Department of Finance and then by the Legislative Analyst, the legislative fiscal committee staffs, and the appropriate committees of the Legislature. This is a much more detailed process than that associated with state support for current expense and one that involves significantly greater participation by state agencies.

The projects that survive this process and are included in the annual budget act passed by the Legislature and signed by the Governor are eligible for state support according to a formula that takes into account the relative wealth of each district. Projects for districts of average assessed valuation per ADA are financed on a 1:1 state-local matching basis. The state assumes a greater share of the cost of projects for districts of less than average wealth and a lesser share for districts of greater than average wealth. Actual and estimated expenditures for community college capital outlay under this system for 1972-73 through 1976-77 are shown in Table 22.

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1. Education Code Section 20052 defines eligible projects in these terms:

> A project may include the acquisition and improvement of community college sites, the planning, construction, reconstruction or remodeling of any permanent structures for use as a classroom, laboratory, library, related facilities necessary for the instruction of students or for administration of the education program, maintenance or utility facilities essential to the operation of the foregoing facilities, and the initial acquisition of equipment. A project shall not include the planning or construction of dormitories, student centers other than cafeterias, stadia, the improvement of sites for student or staff parking, or single-purpose auditoriums.

Table 22: State and District Expenditures under the Community College Construction Act of 1967

Year	State Share (Millions)	District Share (Millions)	Total Expenditures (Millions)	% State	% District
1972-73	$ 27.3	$ 21.3	$ 48.6	56.2%	43.8%
1973-74	76.6	66.8	143.4	53.4	46.6
1974-75	47.1	46.7	93.8	50.2	49.8
1975-76	18.4	17.5	35.9	51.3	48.7
1976-77[1]	47.9	40.0	87.9	54.5	45.5
1977-78[2]	27.0	24.9	51.9	52.0	48.0

1. Estimated.

2. Budgeted.

Source: Governor's Budget.

Five-Year Plans

The five-year construction plan required of each district every year must include at least five elements. The first is an enrollment projection for each college in the district based on projections prepared by the Department of Finance for the entire district and expressed in weekly student contact hours. These college projections are the result of cooperative effort by the districts and the Department of Finance. The second element is a report of current enrollment capacity, which is also expressed in weekly student contact hours and based on space and utilization standards established by the Board of Governors. The third element is a report of the capacity of district offices, libraries, and other supporting facilities, also based on statewide standards. The fourth element is a statement of the district's need for new classroom and laboratory space to provide for new programs and changes in program emphasis, as well as for enrollment growth, if any. Finally, the plan must include an inventory of all of the existing facilities of the district.

These five-year plans, which are prepared in the fall and winter of each year and which set out the total estimated capital construction needs of each district for the next five years, must be submitted for review and evaluation by the Chancellor's staff by February 1. After screening by the Chancellor's Office, the plans are submitted to the Board of Governors in April, and when all necessary corrections or revisions have been made, the Chancellor notifies each district that its plan has been approved.

Project Proposals and Preliminary Plans

In January of each year, the districts also submit to the Chancellor's Office the specific projects proposed for the first year of their approved five-year plans. The Chancellor's staff then reviews these project proposals in relation to the information in the district plans.[2]

All approved proposals are eventually drawn together to make up the first year of the "Major Capital Improvement Program" that is presented to the Board of Governors in April. This program, when adopted by the Board, becomes the community colleges' capital outlay request for the fiscal year beginning 14 months later. It also provides estimates of the subsequent stages of the projects proposed for support in the budget year, together with additional projects to be proposed in the following years. Upon approval by the Board of Governors, the program is submitted to the Department of Finance, which is required to act on the proposals it contains by July 1.

Upon securing approval for their projects from the Department of Finance, the districts then submit preliminary plans for those projects to the Chancellor's Office. These preliminary plans, which must be submitted by October 1, include detailed plans, specifications, and drawings for each project, plus all other data necessary for estimating its cost. The Chancellor's Office reviews and evaluates the preliminary plans, conferring with district officials as necessary, before passing them on to the Department of Finance. This review includes an architectural analysis to determine project costs and the efficiency of the plan, a determination of the total cost of the project, identification of the amount of federal aid, if any, that is available for the project, and a calculation of the state and local shares of the net cost. These preliminary plans must be approved or disapproved by November 15, after which they are

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2. Under other provisions of the Education Code, the districts must also obtain approval for construction projects financed entirely from district funds if the project cost is more than $10,000.

transmitted to the Department of Finance for further review. (Copies are also sent to the Legislative Analyst at this time.) If the Department of Finance approves the preliminary plans, the project is included in the Governor's Budget that is submitted to the Legislature in January.

In reviewing the preliminary plans, the Chancellor's staff is required to place them in priority order so that the most needed projects will receive first consideration for financing by the Governor and the Legislature. This is done according to criteria first established by the Board of Governors for the 1971-72 capital outlay program and continued in effect, with certain modifications, since then. These criteria rank projects in the following order: (1) projects that will complete new facilities or provide for repairs or alterations necessary for the continued use of existing facilities; (2) projects that continue work that is underway on previously approved facilities; (3) new construction starts; and (4) all other projects.[3] Within each of these catagories, there are additional criteria having to do with the purpose of the project and its financing. The Department of Finance is not bound by these criteria, however, and usually reorders the approved projects without further consultation with the Board of Governors, before adding them to the Governor's Budget.

Legislative Review and Implementation

Those projects that are included in the Governor's Budget are reviewed by the Assembly Ways and Means and Senate Finance Committees with the assistance of the Legislative Analyst's recommendations, the recommendations of committee staff, and the testimony presented at committee hearings by the Chancellor's staff, the Department of Finance, and district representatives. The projects that remain in the budget act after it has been passed and signed by the Governor may be undertaken by the districts. There is, however, one last review--that by the State Public Works Board, which conducts a final examination of all capital outlay projects financed in whole or in part by the state before they go out to bid.

Statewide Capacity and Utilization Standards

To calculate the capacity of existing and proposed new facilities, the Board of Governors has adopted standards for the hours per week instructional facilities are expected to be used, their average occupancy rates during those hours, and the square footage required for each student station. Although the districts are not required by law to meet these standards, they are employed by the Chancellor's

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3. California Community Colleges, Appendix G, Five-Year Plan.

Office in determining the need for additional instructional space and by the Department of Finance and Legislative Analyst in reviewing proposed projects, so that the effect is much the same.

Classrooms and seminar rooms are expected to be used 53 hours per week (48 hours per week for colleges with fewer than 140,000 weekly student contact hours, or about 8,000 ADA), and the average station occupancy is expected to be 66 percent of capacity.[4] Laboratories are expected to be used an average of 27.5 hours per week, with a station occupancy rate of 85 percent. This means that each student station in classrooms and seminar rooms is expected to be in use about 35 hours per week (32 hours per week for smaller colleges) and each laboratory station about 23 hours per week.

Classrooms and seminar rooms are to provide 15 "assignable square feet" (excludes service areas, passageways, etc.) per station. The space required for each laboratory station is determined according to a schedule of the square footage determined to be necessary for each of 49 subjects that may be taught. Based upon these square footage standards, as well as the room use and station occupancy standards, the colleges and the Chancellor's Office can calculate the amount of instructional space required for every 100 weekly student contact hours (existing and projected) for each campus. There are, in addition, standards for library space and certain other facilities. Facilities for which standards have not been developed include student centers (which are not constructed at state expense), physical education facilities, and storage areas.

Sources of Capital Outlay Support

According to the year-end financial reports submitted by the districts to the Chancellor's Office and subsequently included in the Controller's annual report of school district financial transactions, the community colleges have spent an average of nearly $140 million per year for capital outlay over the last five years.

It is not possible to determine exactly what portion of each year's expenditure was drawn from state or federal aid and what came from local sources because the income from all sources is combined in several funds and large balances are frequently carried over from one year to the next. If it is assumed that all state and federal aid is spent in the year in which it is received, however, the shares of each year's capital outlay financing can be approximated as shown in Table 23. According to these estimates, state support

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4. Since 1974, however, the Department of Finance has computed the state's share of project costs using a space utilization rate of 53 hours per week.

over this six-year period averaged 27 percent of total capital outlay support, identifiable federal aid averaged 1 percent, and all local sources, including district taxes and county community college tuition taxes, averaged 72 percent.

State support, which grew rapidly from 1970-71 to 1973-74, has been declining since then and is unlikely to rise above the 1975-76 level in the absence of voter approval of a new state bond issue or a change in state financing policy. For 1977-78, the Board of Governors requested $63.9 million in state aid for projects expected to cost $121.5 million in total, but, in preparing the Governor's Budget the Department of Finance cut this back to $27 million in state aid for projects totaling $51.9 million.

Table 23: Estimated Support for Community College Capital Outlay, 1970-71 through 1975-76 (in Millions)

Year	State Support	Federal Aid[1]	Local Funds	Totals
1970-71	$13.7	$4.7	$ 81.3	$ 99.7
1971-72	36.8	0.2	64.2	101.2
1972-73	27.3	2.1	79.6	109.0
1973-74	76.6	2.2	69.3	148.1
1974-75	43.1	1.0	153.2	197.3
1975-76	29.0	0.7	150.9	180.6

1. Excludes federal aid deposited in district general funds and counted here as local support.

Source: State Controller, Annual Report of Financial Transactions of School Districts.

SECTION 3

DEFICIENCIES OF THE PRESENT SYSTEM OF CAPITAL OUTLAY SUPPORT

The expectations against which the present system of support for capital outlay may be measured are the same as those listed earlier with regard to the system of support for current expenditures. The deficiencies that may be identified by this method are, however, somewhat different.

Expectation #1:

> *The community colleges should receive sufficient support to ensure that they are able to continue to make a maximum contribution toward fulfilling the educational needs and aspirations of all adult Californians.*

Until 1975-76, it was evident that the existing system of support for community college capital outlay was at least adequate to meet the needs of the colleges to accommodate enrollment growth and reasonable program development. The subsequent defeat of a proposed state bond issue and the reluctance of the Governor and Legislature to increase community college allocations from other capital outlay funds, however, has changed this situation rather abruptly.[1] Whereas the districts once could count on state aid for a major portion of their basic needs for the construction of facilities for instruction and supporting services, they must now depend largely, and in some cases entirely, upon local resources.

It is also true, of course, that many of the districts are no longer faced with sharp annual increases in enrollment and that, as a result, their capital outlay requirements have fallen off significantly. Yet the dollar volume of project proposals that are eligible for state aid remains high. In December 1976, the Chancellor's Office submitted to the Board of Governors a list of projects for 1977-78 for 38 districts with a total cost of $121.5 million, of which the state share was calculated to be $63.9 million, as noted in the preceding section.

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1. In cutting back the amount of aid approved by the Legislature for 1976-77, the Governor said, "the bond fund that traditionally has provided financing for the community colleges is exhausted and the people have voted against any additional bond financing. Until additional financing is authorized by the people, the appropriation of state funds should only be the minimum essential to maintain a capital outlay program, which includes projects necessary to protect life and safety, to make existing facilities operable and to meet critical program capacity needs of existing campuses."

Moreover, for the five-year period 1978-79 through 1982-83, as shown in Table 24, the Chancellor's Office has projected expenditures totaling $449 million under the Community College Construction Act.

Table 24: Projected Capital Outlay Requests Under the Community College Construction Act, 1978-79 through 1982-83

Year	Total Expenditures	Local Share	State Share
1978-79	$105.4	$ 50.3	$ 55.1
1979-80	119.4	57.0	62.4
1980-81	98.6	44.4	54.1
1981-82	87.1	43.4	43.7
1982-83	38.6	19.3	19.2
Five-Year Totals	$449.0	$214.4	$234.7

Source: Chancellor's Office, California Community Colleges.

Even if a detailed review of these projects will result in a substantial reduction in their projected cost, it appears likely that the amounts requested will remain well beyond what the state now intends to provide in the absence of a new bond issue. Unless and until a new bond issue is approved by the voters or there is a change in state policy, therefore, the adequacy of support for necessary community college capital outlay will depend in large part upon the willingness of district voters to provide the required financing from local property tax revenues.[2]

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2. State support for the other two segments, the University of California and the California State University and Colleges, now comes largely from a special fund, the Capital Outlay Fund for Public Higher Education, although the University also depends heavily on bond funds. Over the past 13 years (beginning with 1965-66, the first year of continuing state support for community college capital outlay), state support for the three segments has been distributed by source as follows (in millions):

Expectation #2:

> *There should be equalization of the tax burden among the community college districts and for all persons throughout the state who must pay property taxes.*

To the extent that the burden of providing necessary capital outlay support falls back on district voters and they do agree to increased taxes, the problem of equalization will be intensified. In the 1967 Community College Construction Act, the state achieved partial equalization for that portion of total district capital outlay that was financed under the Act. As noted in the preceding section, state support for approved projects is provided on a 1:1 matching basis for districts of average assessed valuation per ADA, and the state pays a proportionately greater share of the cost of projects for districts of less than average wealth and proportionately less for districts of greater than average wealth.

If state support is withdrawn and district expenditures remain high, the ability to finance necessary capital outlay will again become entirely a matter of relative district taxable wealth. Districts with relatively low assessed valuation per ADA are likely to be faced with greater difficulty and a greater tax burden in attempting to meet their construction requirements than districts with high assessed valuation per ADA.

This matter is complicated, however, by the fact that capital outlay requirements are not as closely related to current enrollment as are current expenditures. Rapidly growing high-wealth districts may be faced with much heavier tax burdens for capital outlay than low-wealth districts that experience little or no growth. And whereas any specific level of service for current operations may be assumed to cost approximately the same from one district to the next (ignoring economies of scale and local price differences), capital outlay requirements are likely to be very different. Hence, the present system has provided only a limited form of equalization, and the decline in state support may have a greater impact on wealthy districts than on poor districts, depending on where enrollment growth occurs.

Footnote 2 continued from page 110.

	General Fund	Special Fund	Bond Funds
Community Colleges	$ 26.9	$ 89.2	$280.9
California State University and Colleges	3.0	300.5	225.0
University of California	10.8	161.7	351.5

Expectation #3:

> *State and local revenues should be derived from a balanced tax base that will continue to provide the necessary resources for the community colleges in the future.*

As long as the state was making a substantial contribution to community college capital outlay, it could be said that the system was solidly based with respect to sources of income. The defeat of a state bond issue and the consequent reduction in state support, however, has, as already noted, thrown much of the burden back on property taxes. The present system of support must, therefore, be judged to be deficient in this respect at present. Although the local property tax base is likely to grow at a rate that is more than adequate to meet community college capital outlay needs over the next ten years, it is far from certain that district voters will continue to approve the local bond issues and tax increases necessary to pay for the further growth, where it occurs, and instructional program development. Local voters may be reluctant to tax themselves for what has been determined previously to be a statewide interest, but which the Governor and Legislature have decided no longer merits more than very limited state support.

Expectation #4:

> *The cost to students should be minimal so as not to be a barrier to any student who wishes to pursue an accredited course of academic or vocational studies offered by a community college.*

The present system of support for community college capital outlay imposes no direct financial burden on students, except where student association fees are used in some part to pay the cost of constructing student centers. Thus, the present system appears to meet this expectation in full.

Expectation #5:

> *The system of support should permit and encourage effective local administration of the community colleges, including the ability to plan, to respond to legitimate local demands, and to make the best use of all available resources.*

The procedural aspects of capital outlay support have undergone relatively few changes over the last ten years. Although there have been some modifications of the planning requirements and space standards applicable to state aid, the basic structure of state and local support has been remarkably stable. This stability must be regarded as supportive of effective local administration.

The recent cutbacks in state support, however, have had the opposite effect. As long as there were state bond proceeds adequate to meet the costs of all eligible local projects, district administrators could determine well in advance the types of projects that would receive state aid and the approximate amounts of that aid. Now, as state aid is being withdrawn, the only thing that is predictable is that in 1977-78 relatively few community college projects will receive state support. As a result, the districts will have to rely to a much greater extent upon local resources and any supplementary federal aid that may be available. The relatively high degree of predictability the system once provided is likely to be regained only if the state's voters can be persuaded to pass a new community college bond issue, or the Governor and the Legislature make an explicit commitment to fully finance the 1967 Act from other sources.

Expectation #6:

> *The system of support should permit and encourage effective state management of its fiscal responsibilities and contain no incentives for excessive growth or cost escalation.*

By requiring the districts to prepare five-year capital outlay plans and to submit individual projects for approval through the regular budget process, the Community College Construction Act provides ample opportunity for the effective management of state resources and reasonable safeguards against excessive cost escalation. Evidence of the latter is to be found in the state's ability to cut back its contribution with the exhaustion of the state bond proceeds that have been the principal source of state aid since 1962.

Expectation #7:

> *The system should be sufficiently flexible to accommodate changing circumstances without requiring an extensive overhaul every few years.*

The present system has been in effect since 1967 and has undergone only minor changes since then. During this period, total capital outlay expenditures more than doubled and state support rose to a peak of $76.6 million (in 1973-74). In large measure, then, the present system has met this expectation, also.

It remains to be seen, however, whether it can accommodate a continuing decline in state aid if district expenditures remain high. Although it would not be accurate to say that the 1967 Act was predicated on the expectation that the state would share equally, on a statewide basis, in the cost of all eligible projects, it is fair to

say that the Act was intended to provide for a substantial state contribution. If the voters continue to reject state bond issues for the community colleges and the state does not increase its expenditures from current revenues, the pressures for some change in the present program are likely to mount.

In summary, the present system of capital outlay support has, until recently, met basic expectations regarding the adequacy of support, a balanced tax base, minimal student costs, encouragement for effective local and state administration, and flexibility in the face of changing demands. To a lesser extent, it has provided at least partial equalization of the tax burden among the districts. With the decline in state support that began in 1974-75, however, nearly all of these matters have come into question once more. Although it may be argued that there may still be an adequate level of support with only minor state participation, it cannot be said that there is true equalization of tax effort, a balanced tax base, or encouragement for effective local planning and administration.[3]

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3. In December, the Chancellor's Office provided its assessment of the present system in the following statement to the Board of Governors:

> For the past ten years the Community College Construction Act has provided a vehicle for determining college capital outlay needs. The Act provides for equitable assessment of district facility needs based upon existing facilities, utilization standards, and expected student demand. . . . While this system is equitable, certain problems remain. Recently, there has been inadequate funding of eligible projects. The failure this year of the Community College bond issue poses serious questions as to the future availability of adequate funds. The Department of Finance does not follow Chancellor's Office priorities in developing the Governor's Budget. This practice results in uncertainty for districts and undermines the Board role in determining policy. A more active Board role in capital outlay budget formation has been initiated this year. Further efforts are needed to provide the Board more flexibility in budget formation when state appropriations are inadequate to fund 50 percent of eligible project costs. Continued increase in outreach operations requires that a mechanism be developed for state funding of lease, rent or renovation of temporary facilities if districts are to have sufficient flexibility to meet anticipated student demand.

SECTION 4

ALTERNATIVE SOURCES AND METHODS OF SUPPORT FOR CAPITAL OUTLAY

The present system of support for capital outlay is similar to the system of support for current expense in that it has as its principal features: (1) state and local sharing of a major portion of total expenditures, and (2) a formula for allocating state aid among the districts that is intended to at least partly equalize the local tax burden. It differs from the system of support for current expense, however, in several important respects. One is that state support is provided through the annual budget acts, and, as a consequence, both state and local expenditures are subject to intensive review at the state level. A second difference is that the method of equalization is not closely linked to actual district expenditures. A third is that the state share has now declined to less than 25 percent of total expenditures. Any careful consideration of alternative sources and methods of support must take all of these factors into account.

Alternative Sources of Support

In examining alternative sources of support for community college capital outlay, it will again be useful to first consider two extremes--full state support, on the one hand, and full local support, on the other--before considering less radical changes.

Full State Support

If, instead of reducing its share of community college construction costs, the state were to assume responsibility for the full costs of all projects eligible for aid under the 1967 Construction Act (excluding federal aid), the cost to the state in 1977-78 would be $121.5 million, or about $94.5 million more than has been included in the Governor's Budget. If the state were to assume the full burden for all community college construction costs, including those not eligible under the 1967 Act, the cost to the state could go as high as $150 million in 1977-78.

This would be the surest way of achieving full equalization, particularly if the districts were prohibited from raising and spending any local revenues for capital outlay other than the sums required to pay the principal and interest on their outstanding construction bonds. It would also provide nearly all property owners with additional relief from local property taxes. Furthermore, inasmuch as the state is now involved in the review and approval of individual projects, it would require no radical changes in state administration of capital outlay aid.

Full state support of community college capital outlay would, however, significantly increase state involvement in district planning and management. Since capital outlay costs are closely related to program development and campus planning, it is likely that the state, through the Board of Governors and the Chancellor's Office, would find it necessary to participate much more actively in those areas than at present. Thus, the benefits of greater equalization and additional property tax relief would have to be weighed against the increased costs to the state (whether financed from bond funds or current revenues) and some further curtailment of local responsibility for the management of the community colleges.

Full Local Support

At the opposite extreme, the state might withdraw altogether from support of community college capital outlay, leaving the entire burden to the districts (with minor support from federal aid and student charges). Such action might be justified on the grounds that state support was originally intended to help the districts to meet the cost of housing the enormous growth of the sixties and early seventies. Since that period has passed, it may be argued that the need for state support has passed, also.

The saving to the state and the added cost to the districts would be relatively small, however, in view of the likelihood that the state will provide no more than $25 million to $30 million for community college capital outlay in 1977-78 in any case. Thus, the impact on equalization and tax relief, though negative, would also be small. The principal cost associated with a move back to full local support would be the reduction of educational opportunity for residents of low-wealth districts that are likely to undergo continuing population growth. The principal gain, if it can be called that, would be a substantial reduction in state participation in district administration and management.

Full Financing of the 1967 Act

As noted in the preceding section, 1974-75 was the last year in which the state appropriated its full share of the cost of community college construction projects eligible for state support under the 1967 Community College Construction Act. Since then, the state has employed various priority measures to enable it to match its spending to the amount determined to be available from the last of the community college bond proceeds and the Capital Outlay Fund for Public Higher Education. For 1977-78, the Governor's Budget provides only about 40 percent of the amount determined by the Chancellor's Office to be required for eligible projects. Full financing of the 1967 Act would require an increase in budgeted state support from $27 million to nearly $64 million.

The additional expenditure would result in a modest but important addition to local property tax relief and, quite possibly, some improvement in equalization. It would also ensure that there would be no curtailment of educational opportunity in low-wealth districts that are experiencing continuing enrollment growth. In all probability, however, it would require a decision by the Governor and the Legislature to allocate state General Fund revenues to community college capital outlay for the first time since 1969. Such a decision would, of course, result in a corresponding reduction in state support for some other purpose or an offsetting tax increase.

Increased Support from Other Sources

In the absence of any increase in budgeted state support, or as a supplement thereto, the community college districts might be encouraged to seek greater amounts of aid from federal sources or from student fees, or both. With respect to federal aid, there is a possibility that the colleges will be eligible for capital outlay support under the Local Public Works Capital Development and Investment Act, which was recently augmented by Congress. Such aid cannot be expected on a continuing basis, however, and it now seems very unlikely that there will be any other important new source of federal aid in the near future.

The remaining alternative, then, is to require students to make a direct contribution to capital outlay costs in addition to those associated with the provision of student centers. Such a step would not be without precedent in postsecondary education in California. University of California students have been required to contribute substantial amounts to UC capital outlay programs in recent years.[1] Nevertheless, it would mark a very important departure from existing policy with regard to community college fees.

Alternative Methods of Providing Capital Outlay Support

As in the case of support for current expense, there are many methods by which capital outlay support may be provided for the community colleges. As a practical matter, however, it is possible to limit consideration to those alternatives that are representative of the principal policy options and that address themselves to one or more of the deficiencies noted in the preceding section.

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1. According to the Office of the Legislative Analyst, the Regents allocated $9.8 million in student fees to capital outlay in 1974-75 and $6.5 million in 1975-76.

In this context, the present system of budgetary review may be taken as given as long as some state support is provided. There is no reason to believe that this approach will be abandoned if the state continues to provide a substantial amount of support, although it may be difficult to maintain if the state share falls to no more than a small fraction of annual expenditures by the districts. Similarly, it may be assumed that some form of direct institutional support will continue. Direct institutional support would not be compatible with extensive use of vouchers to support current operations, but the chances that a voucher system will be adopted appear to be extremely remote.

Therefore, the principal alternatives to be discussed here are: (1) a system of state and local sharing in which the local share is fixed by a specific tax ceiling, (2) a system of state and local sharing in which capital outlay and current expense are covered by a single equalization formula, (3) a system of district power equalizing, (4) a statewide property tax, and (5) modification of the present system to permit state support of the costs of leasing or renting instructional space.

A System of State-Local Sharing in Which the Local Contribution is Fixed by a Maximum Tax Rate

The chief weakness of the present system of support, apart from the matter of the adequacy of the amount of support currently provided by the state, is its method of equalizing the tax burden among the districts. The equalization formula now employed by the state to determine the state and local shares of the cost of each project is imperfect at best. Based on the relationship between the assessed valuation per weekly student contact hour (WSCH) for each district and the statewide assessed valuation per WSCH, the formula ensures equalization only if capital outlay costs per unit of total enrollment, as measured in weekly student contact hours, are approximately the same from one district to the next. Obviously, they are not because districts experience very different growth rates, and the costs of individual projects vary widely.[2]

One method of improving equalization without otherwise changing the existing system of state and local sharing would be to require each district to contribute the equivalent of a specified tax rate toward the cost of its eligible projects. That rate might, for example, be set at $ .15 per $100 of assessed valuation. Any cost above the

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2. For example, two districts may be close to the statewide average assessed valuation per WSCH and therefore eligible for state matching on a 1:1 basis. But if one district must house twice as many new students as the other, its tax burden for providing its share of the cost is likely to be twice that of the other district.

amount produced by this tax rate (which might be applied for a period of several years) would be paid by the state, thus ensuring that no district would be required to carry more than a $ .15 tax rate for capital outlay.

Unfortunately, the weaknesses of such a system would probably offset its benefits. Very wealthy districts would not have to tax themselves up to the maximum unless it were set so low that the state would be required to pay considerably more than half of the cost of all projects. To avoid this, there would need to be some method for capturing excess revenues from the wealthiest districts, which would be much the same as a statewide property tax. Another weakness would be that the districts have a strong incentive to combine several years' projects into one year so as to maximize the state aid for which they would be eligible. Finally, the incentive for districts to hold down costs would be substantially reduced if the state were required to meet all costs above the maximum district contribution.

A System of State-Local Sharing in Which Capital Outlay and Current Expense are Covered by a Single Formula

Another approach to the equalization problem would be the consolidation of current expense and approved capital outlay costs in calculating state equalization. Such an approach might have been woven into the old foundation program by raising the level of state aid and raising the district computational tax. Under the new system of state and local sharing of current expense, however, there would appear to be no practical way of accomplishing this, as any additional cost would be borne entirely by the state.

District Power Equalizing

A third method of improving equalization in the capital outlay support system would be to establish a system of district power equalizing similar to that described in the section on alternative methods of supporting current expense. As in the example discussed on pages 64-66, the state would select some level of assessed valuation below which it would provide equalization and above which it would not. It would then guarantee that any given tax rate would produce the same amount of revenue for every district. High-wealth districts that would obtain more than the guaranteed amount would be required to contribute their "surplus" to low-wealth districts that would obtain less than the guaranteed yield. State aid would be added as necessary to establish the guaranteed yield at the desired level.

This would give every district the same ability to finance any level of expenditure. It would not, however, overcome the problem inherent in the existing system of equalization. That is, districts of similar wealth may have quite dissimilar capital outlay requirements in any year or over a period of several years and, therefore, be required to levy very different tax rates.

Statewide Property Tax

The only way to overcome the weaknesses of the foregoing alternatives would be to establish a statewide property tax (or some other statewide tax) for community college capital outlay support. The yield from such a tax could be used to finance the district share of all projects eligible for state aid under the 1967 Act or to finance the entire cost of such projects. This would ensure full equalization for all capital outlay within the state-local program, leaving unequalized only those district expenditures for projects that are not eligible for aid under the present standards.

A statewide property tax for community college capital outlay would not require a major change in the existing method of allocating support among the districts. Nor would it represent a radical departure from the existing state and local tax structure. It might well be considered to be a "foot in the door" for subsequent expansion of state use of the property tax, however, and it would go against recent efforts to shift a larger share of local costs from the property tax to the state tax base. Moreover, this would be tantamount to state assumption of the full burden of community college capital outlay support, which would be better accomplished using the existing state tax base.

State Support for the Leasing or Renting of Community College Facilities

At present, state capital outlay aid may not be used to cover the cost of leasing or renting community college facilities. Districts that do rent or lease space for instructional or other activities off-campus must do so out of their own general fund revenues in most cases.

This has not been a significant problem in the past for a variety of reasons. According to the Commission's recent survey of district off-campus sites, the great majority of such sites—about 78 percent—are obtained without charge. A second reason is that most districts use leased or rented facilities only as a temporary substitute for permanent structures.[3] Finally, although many districts use leased or rented facilities at some time, relatively few districts spend significant sums for this purpose.

The prohibition against state support for this purpose must be reconsidered, however, in view of the pressure on the districts to make greater use of off-campus facilities to extend their programs to

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3. Board of Governors' Agenda for June 18-19, 1975, Item 4, p. 23.

persons not well served by the existing campuses.[4] It is entirely possible that some districts may not be able to continue to expand their "outreach" programs without either adding significantly to their own costs or receiving state aid for this purpose. There is nothing to be gained by encouraging districts to pay for facilities that they now may use free of charge, but in some locations such facilities may no longer be available. In such cases, it would make sense for the state to match district expenditures for the leasing or renting of instructional space so as to minimize capital outlay costs and to encourage the districts to provide instruction where it is most needed.[5]

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4. See, for example, the Board of Governors' Agenda for December 8-9, 1976, Item 3, pp. 12-18, 26.

5. The Board of Governors has adopted the following policy statement regarding state aid for this purpose:

> The Community College Construction Act should be supplemented to provide, for the first time, state matching funds for the lease, rent, renovation, alteration, or other costs attendant to the temporary use of facilities. This would expand the scope of existing state capital outlay support to cover facilities, often of a non-permanent nature, housing college outreach programs.

California Community Colleges Five-Year Plan, 1977-82, June 1976, p. 32.

SECTION 5

THE EXPERIENCE OF OTHER STATES IN FINANCING CAPITAL OUTLAY FOR TWO-YEAR COLLEGES

The Commission's survey of colleges in the eight selected states revealed a consistent tension between local objectives to have colleges within commuting distance of all residents and the states' interest in fiscal control. The amounts available for construction and equipment varied widely among these states, generally based on their geography, their populations, their patterns of college governance, and their commitment to commuter colleges.[1]

More important than the dollars spent by each state on construction is the method developed for the sources of capital funds and the review procedures for new projects. Table 25 summarizes the current practices in the survey states. Although there is a broad array of finance mechanisms for capital outlay, several common characteristics are evident among the survey states. One is that the legislatures are more willing to finance the total cost if the state is involved in capital outlay at all. Thus the state provides 100 percent of capital outlay costs in Hawaii, Florida, and Colorado (for state-controlled community colleges). Another is that the legislatures like to avoid commitment to any fixed level of support from year to year if state support is provided.

Unlike the trend in college operating costs, however, most states continue to rely primarily on local sources for new construction. One justification for this continuing reliance on local sources is the belief that new community college facilities will be used mostly by local residents and that their physical presence will enhance their communities. Another justification is that local responsibility for capital outlay is believed to be an effective way to guard against irresponsible proliferation of campuses. If local districts must bear the principal burden of capital outlay costs, they are less prone to extravagance when they must meet those costs from local resources.

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1. Descriptions of the results of this local-state tension and the effect of these factors on construction programs appear in Lawrence Arney, State Patterns of Financial Support for Community Colleges (Gainesville, Florida, 1970), p. 5. Leland Medsker and Dale Tillery, Breaking the Access Barriers (New York, 1971), p. 118. Kathleen Smith, "Crossroads in Texas," in Roger Yarrington, ed., Junior Colleges: 50 States/50 Years (Washington, D.C., 1969), p. 143. James Wattenbarger and Bob Cage, More Money for More Opportunity (San Francisco, 1974), p. 11.

This reliance on local districts for capital outlay has some unfortunate consequences, however. As is true for operating costs, the quality of the educational offering is dependent upon the wealth and educational commitment of citizens in a small area if support is limited to the district. This means that people in poorer districts will have to pay higher taxes to obtain the same facilities enjoyed by residents of wealthy districts.

One other thing is clear from reading the budgets of the survey states: capital outlay has been severely curtailed since 1973, especially for new campuses. One reason for this is a widespread belief that enrollments for two-year colleges, like other postsecondary institutions, are leveling off. Another is the increasing reluctance among voters to approve large bond issues, a reluctance intensified by opposition to the property tax. Moreover, the growing popularity of small centers and outreach programs has offered a way to avoid duplicating expensive facilities on a central campus. Finally, the crisis in New York City shows that the unimaginable is quite possible: a major university with its eight community colleges faces a long period with no support for capital outlay. A $90 million academic complex at City College, which overlooks Harlem, has been abandoned in mid-construction because the state cannot sell its bonds. "With regard to capital outlay, the situation is serious," the Vice Chancellor of the City University states in September, 1976. "The State froze new construction for the community colleges. Major improvements are also at a standstill . . .."[2] Fortunately, few states or local districts are confronted with New York's situation, but most governments will stop construction long before they seriously cut operating expenses, as New York has done.

The record of the states in planning capital outlay programs for two-year colleges is, in most cases, dismal. Their reliance on local resources has resulted in uncoordinated efforts and unequal facilities. "State capital outlay financing is irregular or sporadic," wrote the Director of Mississippi's Commission of Budget and Accounting.[3] "There are no explicit objectives associated with directions and financing capital outlay at the postsecondary level, and, moreover, any implicit objective is difficult to discern," a Texas official stated.[4]

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2. Response to CPEC survey by Anthony D. Knerr, Vice Chancellor for Budget and Planning of the City University of New York, September 20, 1976. The Chronicle of Higher Education, September 13, 1976, p. 10.

3. Francis Geoghegan, June 29, 1976.

4. Response to the CPEC survey by James W. Haynie, Director of the Postsecondary Division of the Texas Education Agency, June 15, 1976.

Table 25: Current Practices for Capital Outlay Sources Among Two-Year Colleges in the CPEC Survey States

State	Local Share Formula	State Share Formula	Local Dollars (*if available*)	State Dollars (*if available*)
Colorado	-A minimum of 50% for locally controlled cc's -No local funds for state controlled cc's	-For locally controlled cc's, the state may match up to 50% of construction costs as determined by the Legislature. -The state provides almost all costs for state controlled cc's.	--	$737,568 for 1975-1976
Hawaii	None	One hundred percent. The same review procedures are used at the state level for the cc's and the university.		
Florida	None	Total state funding of facilities according to project priority determined by the Legislature. State higher education bonds support construction. Continuing capital outlay: $400 per instructional unit X total earned instructional units - 1.25% of total amount.	--	$32,631,543 for 1974-1975[a]
Illinois	Minimum of 25% of new construction costs	Combined state and federal share can range up to 75% of capital construction costs.		
Mississippi		Each college district is allocated an equal share of 50% of the state appropriation for capital outlay. The remaining 50% of the state appropriation is allocated proportionally according to the Fall semester full-time credit students.	$4,645,203 (1974-1975)	$5,000,000 State General Fund $5,000,000 Revenue Sharing $1,200,000 Federal Government

TABLE 25 (CONTINUED)

State	Local Share Formula	State Share Formula	Local Dollars *(if available)*	State Dollars *(if available)*
New York	Must provide a minimum of 50% of new construction	State may provide up to 50% of the state trustees-approved amount for capital expenditure.	$53,668,000 (1975-1976)	$53,668,000 (1975-1976)
Texas	One hundred percent	None		
Virginia	Determined by Legislature and voted upon by residents of the district	Various proportions established by the Legislature upon recommendation of the Virginia Department of Community Colleges.	$2,968,605 (1974-1976 biennium)	$3,906,815 (1974-1976 biennium)

[a]This represents the Total Expenditures in the Community Colleges' Unexpended Plant Fund Expenditures for 1974-5, a confusing table to be sure. See Department of Education, Division of Community Colleges, Report for Public Community Colleges, 1974-5 (Tallahasse, Florida, 1976), p. 67.

Sources: Response to the CPEC Survey from L. Daniel Crooks, Director of Administration and Finance, Virginia Department of Community Colleges, October 13, 1976; Francis Geoghegan, Director of the Mississippi Commission of Budget and Accounting, June 29, 1976; Cornelius V. Robbins, Associate Chancellor for Community Colleges, State University of New York, July 13, 1976; James L. Buysse, Internal Auditor, State Board for Community Colleges and Occupational Education, Denver Colorado, June 4, 1976. James Wattenbarger and Paul Starnes, "Financial Support for Community Colleges" (Gainesville, Florida, 1974), pp. 20-21. Wattenbarger and Starnes, "State Funding Formulae for Public Two-Year Colleges" (Gainesville, Florida, 1973).

In short, although several states appear to have responded effectively to the need for new construction when community college growth reached its peak, few have succeeded in establishing consistent and reliable systems of capital outlay support for the longer run.

SECTION 6

CONCLUSIONS AND RECOMMENDATIONS: SUPPORT FOR CAPITAL OUTLAY

Our examination of the present system of support for community college capital outlay has led us to the conclusion that this system has worked reasonable well and should be continued, fully financed, with but one relatively minor change.

Recommendation 1

We recommend that the state return to full financing of the 1967 Community College Construction Act, using General Fund revenues, if necessary, until a bond issue can be passed.

It has been argued that because community college enrollment is expected to level off and begin to decline for several years after 1980, it would be a mistake to continue to build any new community college facilities now.[1] Such a position suggests an inordinate faith in enrollment projections and a lack of understanding that a number of community college districts are likely to experience a continuing, if modest, growth throughout the period even if many others do not. The principal consequence of withdrawal of state support is likely to be either further erosion of equalization or curtailment of educational opportunities in those districts with continuing population growth.

As long as the 1967 Community College Construction Act remains on the statutes, we believe that the state has an obligation to provide its full share of the cost of all eligible projects. If it is not possible to gain approval of a bond issue for this purpose, then the financing should come from current revenues.

Recommendation 2

We recommend that an amount of up to $1 million be appropriated annually by the state to match district expenditures for the leasing or renting of off-campus instructional space from other than public agencies.

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1. This is essentially the view argued by the Legislative Analyst in the Analysis of the Budget Bill for 1975-76 and repeated in the 1976-77 Analysis.

The existing prohibition against state support for the cost of leasing or renting community college facilities works against state and local efforts to extend community college programs to persons and communities that have been inadequately served in the past. If an "outreach" policy is to be encouraged as a matter of state interest, then state aid should be available to help support it.

Undoubtedly, many districts are able to use their general purpose revenues or community service tax proceeds for this purpose and do not need additional support. Several districts with aggressive "outreach" programs are seriously hampered, however, by a lack of adequate current financing for those programs and find it increasingly difficult to obtain free space. The absence of support for the acquisition of temporary space only forces those districts to curtail services or to purchase or construct facilities that they may not need in a few years.

Therefore, we believe that the state should appropriate up to $1 million annually in aid to match district expenditures for the leasing or renting (but not the purchase) of off-campus instructional space from other than public agencies. This aid should be allocated on the same matching basis as capital outlay support and according to the same utilization and capacity standards where appropriate. It should be separately administered, however, so that it can be readily identified and the demand for it accurately measured.

There is a danger, of course, that many of those currently providing space at no cost will take this opportunity to obtain additional revenue. The recommended amount is an arbitrary sum intended to be more than a token payment but not so much as to discourage districts from attempting to obtain facilities at little or no cost. With a year or two of experience, the Board of Governors should know whether a larger or smaller amount is needed.

APPENDICES

APPENDIX A: DISTRICT DEMOGRAPHIC FACTORS, 1976-77

Each district's demographic factor for 1976-77 is 1.0 plus the product of its "C" value multiplied by 0.0171 except for districts with "C" values below the median, for which the demographic factor is 1.0. The district "C" values used in calculating the demographic factors for 1976-77 are as follows:

District	"C" Value	District	"C" Value
Coachella Valley	1.50	Mt. San Antonio	.92*
Lake Tahoe	1.50	West Valley	.91
Los Angeles	1.50	Cabrillo	.90
Mendocino	1.50	Long Beach	.89
Mt. San Jacinto	1.50	Sweetwater	.89
Palo Verde	1.50	West Hills	.88
Redwoods	1.50	Chaffey	.87
San Luis Obispo	1.40	Grossmont	.87
Santa Clarita	1.31	Rancho Santiago	.87
San Jose	1.30	Siskiyou	.87
South County	1.30	Glendale	.86
El Camino	1.26	San Bernardino	.86
Sequoias	1.21	Santa Monica	.86
Victor Valley	1.20	San Diego	.85
Hartnell	1.19	Sonoma County	.85
San Mateo	1.19	West Kern	.84
State Center	1.11	Ventura	.83
Antelope Valley	1.09	Yuba	.82
San Joaquin Delta	1.04	North Orange	.80
Gavilan	1.03	Yosemite	.78
Solano County	1.03	Imperial	.76
Los Rios	1.02	Santa Barbara	.75
Palomar	1.02	Shasta-Te-Tr	.73
Contra Costa	1.01	Napa	.71
Compton	1.00	Cerritos	.70
Saddleback	1.00	Rio Hondo	.70
Marin	.99	Riverside	.70
San Francisco	.98	Foothill	.66
Fremont-Newark	.96	Pasadena Area	.66
Oceanside-Carlsbad	.95	Citrus	.62
Butte	.94	Monterey Peninsula	.59
Kern	.93	Coast	.58
Peralta	.93	Merced	.56
Sierra	.93	Allan Hancock	.55
Barstow	.92*	Lassen	.45

* Median = .92

When these "C" values are multiplied by 0.0171 and added to 1.0, the resulting demographic factors are as follows:

District	Demographic Factor	District	Demographic Factor
Coachella Valley	1.02565	Mt. San Antonio	1.01573
Lake Tahoe	1.02565	West Valley	1.00000*
Los Angeles	1.02565	Cabrillo	1.00000
Mendocino	1.02565	Long Beach	1.00000
Mt. San Jacinto	1.02565	Sweetwater	1.00000
Palo Verde	1.02565	West Hills	1.00000
Redwoods	1.02565	Chaffey	1.00000
San Luis Obispo	1.02394	Grossmont	1.00000
Santa Clarita	1.02240	Rancho Santiago	1.00000
San Jose	1.02223	Siskiyou	1.00000
South County	1.02223	Glendale	1.00000
El Camino	1.02155	San Bernardino	1.00000
Sequoias	1.02069	Santa Monica	1.00000
Victor Valley	1.02052	San Diego	1.00000
Hartnell	1.02035	Sonoma County	1.00000
San Mateo	1.02035	West Kern	1.00000
State Center	1.01898	Ventura	1.00000
Antelope Valley	1.01864	Yuba	1.00000
San Joaquin Delta	1.01778	North Orange	1.00000
Gavilan	1.01761	Yosemite	1.00000
Solano County	1.01761	Imperial	1.00000
Los Rios	1.01744	Santa Barbara	1.00000
Palomar	1.01744	Shasta-Te-Tr	1.00000
Contra Costa	1.01727	Napa	1.00000
Compton	1.01710	Cerritos	1.00000
Saddleback	1.01710	Rio Hondo	1.00000
Marin	1.01693	Riverside	1.00000
San Francisco	1.01676	Foothill-De Anza	1.00000
Fremont-Newark	1.01642	Pasadena Area	1.00000
Oceanside-Carlsbad	1.01625	Citrus	1.00000
Butte	1.01607	Monterey Peninsula	1.00000
Kern	1.01950	Coast	1.00000
Peralta	1.01950	Merced	1.00000
Sierra	1.01950	Allan Hancock	1.00000
Barstow	1.01573	Lassen	1.00000

* The demographic factor for all districts with "C" values below the median is 1.0.

APPENDIX B: DISTRICT GENERAL PURPOSE TAX RATES

Table B-1 shows the general purpose tax rates levied by each community college district from 1972-73 through 1976-77. In 1972-73, Antelope Valley levied the lowest general purpose rate, .3804, and Pasadena levied the highest, .9691. For 1976-77, Lassen levied the lowest rate, .3600, and Barstow the highest, 1.2242. The median rate in 1972-73 was .5352. For 1976-77, the median rate was .6028.

Table B-2 shows the increase or decrease in the general purpose tax rate for each district for the same period. These changes may be summarized as follows:

Year	No. of Districts	Increase	Decrease	No Change
1973-74	68	26	42	0
1974-75	69	44	23	2
1975-76	70	48	20	2
1976-77	70	38	26	6

Table B-3 compares general purpose tax rates levied for 1976-77 with the tax rates authorized for each district. Twenty-six of the 70 districts levied their maximum authorized rates. However, 24 districts levied rates $ .10 or more below their authorized rates, and 11 districts levied rates $ .20 or more below their authorized rates.

Tables B-1 through B-3 will be found on the following pages.

Table B-1: General Purpose Tax Rates Levied by Community College Districts, 1972-73 through 1976-77

District	1972-73	1973-74	1974-75	1975-76	1976-77
Allan Hancock	.4809	.3500	.4172	.4187	.5778
Antelope Valley	.3804	.4683	.4655	.4644	.4141
Barstow	.9335	.8442	.8562	1.0326	1.2242
Butte	.5160	.5060	.5050	.6540	.6610
Cabrillo	.5260	.4680	.5260	.5450	.6170
Cerritos	.5680	.4789	.5370	.5695	.5343
Chaffey	.5443	.4976	.5330	.5788	.5849
Citrus	.4758	.5200	.4871	.5588	.5354
Coachella Valley	.5460	.5830	.6260	.8410	.8410
Coast	.7516	.5782	.5956	.7323	.7076
Compton	.4868	.4393	.4790	.3500	.4168
Contra Costa	.5350	.5580	.5430	.5690	.5970
El Camino	.6341	.6234	.6358	.6483	.6449
Foothill-De Anza	.6950	.6610	.6500	.6560	.5630
Fremont-Newark	.4510	.5000	.5720	.7370	.7350
Gavilan	.5810	.5170	.5350	.6310	.6850
Glendale	.4294	.6667	.6600	.7009	.5377
Grossmont	.7920	.7980	.7900	.7360	.7960
Hartnell	.7060	.6810	.7750	.6590	.7840
Imperial	.9369	.6472	.6822	.7703	.7703
Kern	.5247	.5359	.5863	.5715	.6558
Lake Tahoe	-	-	-	.6310	.6530
Lassen	.5633	.3500	.3500	.4500	.3600
Long Beach	.5995	.6529	.6616	.6560	.6037
Los Angeles	.4573	.5412	.6060	.6226	.5991
Los Rios	.5400	.4450	.5120	.4800	.5670
Marin	.7060	.6630	.6850	.6850	.6580
Mendocino	-	.5900	.6100	.5700	.6900
Merced	.5100	.6300	.5800	.6600	.6600
Mira Costa	.6730	.6180	.6520	.6510	.6460
Monterey Peninsula	.5300	.4410	.4280	.4800	.4000
Mt. San Antonio	.6474	.5979	.6356	.6539	.6535
Mt. San Jacinto	.4143	.4520	.5120	.4510	.5030
Napa	.4900	.4200	.4800	.4700	.5700
North Orange	.4951	.4502	.4624	.5297	.5808
Palomar	.4370	.4280	.4110	.4790	.4280
Palo Verde	.5870	.5460	.5070	.6080	.6020
Pasadena Area	.9691	.8762	.8510	.8174	.8152
Peralta	.5630	.5240	.6040	.6120	.5920
Rancho Santiago	.4818	.5987	.4708	.5545	.6318
Redwoods	.5120	.4700	.5760	.4540	.5540

Table B-1: General Purpose Tax Rates Levied by Community College Districts, 1972-73 through 1976-77 (continued)

District	1972-73	1973-74	1974-75	1975-76	1976-77
Rio Hondo	.4492	.4169	.3663	.4507	.4959
Riverside	.4870	.4300	.4700	.4550	.5080
Saddleback	.4522	.5189	.5236	.6846	.9092
San Bernardino	.6798	.6851	.6666	.6892	.7166
San Diego	.4820	.4800	.4840	.4940	.5040
San Francisco	.6495	.6493	.5665	.6237	.6010
San Joaquin Delta	.4608	.3965	.4802	.4948	.5473
San Jose	.5720	.6120	.6310	.6180	.6330
San Luis Obispo	.5150	.5200	.5800	.5700	.6200
San Mateo	.6421	.6045	.6574	.6516	.7392
Santa Barbara	.5160	.4961	.5288	.5389	.4903
Santa Clarita	.7686	.9578	.9033	.9003	.8895
Santa Monica	.3848	.4676	.5489	.6263	.6235
Sequoias	.5582	.4736	.5550	.6200	.6267
Shasta-Te Tr	.4900	.5000	.5300	.5400	.5400
Sierra	.6500	.6450	.5800	.6500	.6900
Siskiyou	.5100	.4900	.5553	.6370	.5800
Solano County	.4353	.4431	.4432	.4646	.4863
Sonoma County	.4600	.4300	.4300	.4800	.5590
South County	.4060	.4840	.5540	.5500	.5880
State Center	.5091	.4701	.5276	.5283	.5662
Sweetwater	.6460	.5770	.5290	.5320	.4820
Ventura County	.5391	.5323	.5135	.5273	.5311
Victor Valley	.7500	.7738	.8094	.9360	.9360
West Hills	.4687	.6035	.3836	.8782	.8114
West Kern	.4772	.6647	.3558	.3912	.3665
West Valley	.6140	.5610	.6710	.5920	.8280
Yosemite	.8300	.6900	.7200	.7300	.7300
Yuba	.5570	.5400	.5300	.5600	.7070

Table B-2: Change in Community College District General Purpose Tax Rates, 1973-74 through 1976-77

District	Increase or Decrease for: 1973-74	1974-75	1975-76	1976-77
Allan Hancock	-.1309	+.0672	+.0015	+.1591
Antelope Valley	+.0879	-.0025	-.0011	-.0500
Barstow	-.0893	+.0120	+.1764	+.1916
Butte	-.0100	-.0010	+.1490	+.0070
Cabrillo	-.0580	+.0580	+.0190	+.0720
Cerritos	-.0907	+.0581	+.0325	-.0352
Chaffey	-.0467	+.0354	+.0458	+.0061
Citrus	+.0442	-.0329	+.0717	-.0234
Coachella Valley	+.0370	+.0430	+.2150	-
Coast	-.1734	+.0174	+.1367	-.0247
Compton	-.0475	+.0397	-.1290	+.0668
Contra Costa	+.0230	-.0150	+.0260	+.0280
El Camino	-.0107	+.0124	+.0125	-.0034
Foothill-De Anza	-.0340	-.1100	+.0060	-.0030
Fremont-Newark	+.0490	+.0720	+.1650	-.0020
Gavilan	-.0640	+.0180	+.0960	+.0270
Glendale	+.2373	-.0067	+.0409	-.1639
Grossmont	+.0060	-.0080	-.0540	+.0600
Hartnell	-.0250	+.0940	-.1160	+.1250
Imperial	-.2897	+.0350	+.0881	-
Kern	+.0112	+.0504	-.0148	-.0843
Lake Tahoe	-	-	-	+.0220
Lassen	-.2133	-	+.1000	-.0900
Long Beach	+.0534	+.0087	-.0056	-.0523
Los Angeles	+.0839	+.0648	+.0166	-.0235
Los Rios	-.0950	+.0670	-.0320	+.0870
Marin	-.0430	+.0220	-	+.0270
Mendocino	-	+.0200	-.0400	+.1200
Merced	+.1200	-.0500	+.0800	-
Mira Costa	-.0550	+.0340	-.0010	+.0707
Monterey Peninsula	-.0890	-.0130	+.0520	-.0800
Mount San Antonio	-.0495	+.0377	+.0183	-.0004
Mount San Jacinto	+.0377	+.0600	-.0610	+.0520
Napa	-.0700	+.0600	-.0100	+.1000
North Orange County	-.0449	+.0122	+.0673	+.0511
Palo Verde	-.0090	-.0170	+.1970	-.0060
Palomar	-.0410	-.0390	-.0280	-.0510
Pasadena Area	-.0929	-.0252	-.0336	-.0022
Peralta	-.0390	+.0800	+.0080	-.0200
Rancho Santiago	+.1169	-.1279	+.0837	+.0773
Redwoods	-.0420	+.1060	-.1220	+.1000

Table B-2: Change in Community College District General Purpose Tax Rates, 1973-74 through 1976-77 (continued)

District	Increase or Decrease for: 1973-74	1974-75	1975-76	1976-77
Rio Hondo	-.0323	-.0351	+.0844	+.0450
Riverside	-.0570	+.0400	-.0150	+.0530
Saddleback	+.0667	+.0047	+.1610	+.2246
San Bernardino	+.0053	-.0185	+.0226	+.0274
San Diego	+.0020	+.0040	+.0100	+.0100
San Francisco	-.0002	-.0828	+.0572	-.0227
San Joaquin Delta	-.0463	+.0837	+.0146	+.0525
San Jose	+.0400	+.0190	-.0130	+.0150
San Luis Obispo	+.0050	+.0600	-.0100	+.0500
San Mateo	-.0376	+.0529	-.0058	+.0876
Santa Barbara	-.0199	+.0327	+.0101	-.0486
Santa Clarita	+.1892	-.0545	-.0020	-.0108
Santa Monica	+.0828	+.0813	+.0774	-.0028
Sequoias	-.0846	+.0814	+.0650	+.0067
Shasta-Te-Tr	+.0100	+.0300	+.0100	-
Sierra	-.0046	-.0654	+.0700	+.0400
Siskiyou	-.0200	+.0653	+.0817	-.0570
Solano County	+.0078	+.0001	+.0214	+.0217
Sonoma County	-.0300	-	+.0500	+.0790
South County	+.0780	+.0700	-.0040	+.0380
State Center	-.0390	+.0575	+.0007	+.0379
Sweetwater	-.0690	-.0480	+.0030	-.0500
Ventura County	-.0068	-.0188	+.0138	+.0038
Victor Valley	+.0238	+.0356	+.1266	-
West Hills	+.1351	-.2199	+.4946	-.0668
West Kern	+.1875	-.3089	+.5224	-.0247
West Valley	-.0530	+.1100	+.0990	+.2360
Yosemite	-.1400	+.1100	+.0100	-
Yuba	-.0130	-.0100	+.0300	+.1470

Table B-3: Community College District General Purpose Tax Rates Authorized and Levied, 1976-77

District	Tax Rate Authorized	Tax Rate Levied	Difference
Allan Hancock	.6967	.5778	.1189
Antelope Valley	.6815	.4141	.2674
Barstow	1.2250	1.2242	.0008
Butte	.7210	.6610	.0600
Cabrillo	.6460	.6170	.0290
Cerritos	.7060	.5343	.1717
Chaffey	.7200	.5641	.1559
Citrus	.5819	.5354	.0465
Coachella Valley	.8410	.8410	.0
Coast	.7787	.7076	.0711
Compton	.4168	.4168	.0
Contra Costa	.5990	.5970	.0020
El Camino	.6483	.6449	.0034
Foothill	.8420	.5630	.2790
Fremont-Newark	.7370	.7370	.0
Gavilan	.7610	.6580	.1030
Glendale	.8075	.5377	.2718
Grossmont	.9780	.7960	.1820
Hartnell	.7840	.7840	.0
Imperial	1.2932	.7703	.5229
Kern	.6558	.6558	.0
Lake Tahoe	.7268	.7268	.0
Lassen	.3600	.3600	.0
Long Beach	.8574	.6118	.2457
Los Angeles	.6493	.5991	.0502
Los Rios	.5670	.5670	.0
Marin	.7390	.6580	.0810
Mendocino	.6900	.6900	.0
Merced	.6600	.6600	.0
Mira Costa	.8390	.6460	.1930
Monterey Peninsula	.5480	.4400	.1080
Mt. San Antonio	.5290	.5030	.0260
Mt. San Jacinto	.7815	.6535	.1280
Napa	.5030	.5030	.0
North Orange	.5809	.5809	.0
Palomar	.5560	.4280	.1280
Palo Verde	.6020	.6020	.0
Pasadena Area	.9227	.8152	.1075
Peralta	.5920	.5920	.0
Rancho Santiago	.6318	.6318	.0

Table B-3: Community College District General Purpose Tax Rates Authorized and Levied, 1976-77 (continued)

District	Tax Rate Authorized	Tax Rate Levied	Difference
Redwoods	.5310	.5310	.0
Rio Hondo	.5435	.4957	.0478
Riverside	.5750	.5080	.0670
Saddleback	.9473	.9092	.0381
San Bernardino	.9486	.7166	.2320
San Diego	.5040	.5040	.0
San Francisco	.7316	.6010	.1306
San Joaquin Delta	.5473	.5473	.0
San Jose	.6330	.6330	.0
San Luis Obispo	.7039	.6200	.0839
San Mateo	.7546	.7392	.0154
Santa Barbara	.7926	.4903	.3023
Santa Clarita	1.3762	.8995	.4767
Santa Monica	.7748	.6235	.1513
Sequoias	.6267	.6267	.0
Shasta-Te-Tr	.5400	.5400	.0
Sierra	.7577	.6892	.0685
Siskiyou	.5945	.5723	.2220
Solano	.5574	.4863	.0711
Sonoma	.5600	.5600	.0
South County	.5935	.5885	.0050
State Center	.5703	.5662	.0041
Sweetwater	.8285	.4820	.3465
Ventura	.7179	.5311	.1868
Victor Valley	1.2425	.9360	.3065
West Hills	.8114	.8114	.0
West Kern	.3665	.3665	.0
West Valley	.8280	.8280	.0
Yosemite	.7700	.7300	.0400
Yuba	.7070	.7070	.0

APPENDIX C: THE SB 1641 APPORTIONMENT FORMULA AND THE COMMISSION'S PROPOSED REVISION

The SB 1641 formula is shown below in the form of an equation for districts that record some enrollment gain and an equation for districts that record some enrollment loss (excluding apportionments for ADA from nondistrict territory). In both equations, EF = equalization factor and DF = demographic factor.

Also shown is the revised formula proposed by the Commission for all districts. It should be noted that the demographic factor has been dropped and that "state ADA" refers to the "capped ADA" supported by the state in 1975-76.

On the next page is shown the results of a computer simulation of the proposed revisions compared with the outcome of the SB 1641 formula based upon data used for the first principal apportionment.

SB 1641 Formula

A. Districts with enrollment growth:

$$\left[\text{75-76 apportionment} + (\text{75-76 apportionment})(.06)(EF)\right](DF) +$$

$$\left(\frac{\text{75-76 state aid}}{\text{75-76 state ADA}}\right)(1.06)(EF)(\text{76-77 ADA growth})(DF) = \text{76-77 apportionment}$$

B. Districts with enrollment loss:

$$\left(\left[\text{75-76 apportionment} - \left(\frac{\text{75-76 apportionment}}{\text{75-76 ADA}}\right)(\text{76-77 ADA loss})\right] +\right.$$

$$\left.\left[\text{75-76 apportionment} - \left(\frac{\text{75-76 apportionment}}{\text{75-76 ADA}}\right)(\text{76-77 ADA loss})\right]\right.$$

$$\left.(.06)(EF)\right)(DF) = \text{76-77 apportionment}$$

Proposed Revision

$$\left(\frac{\text{75-76 state aid}}{\text{75-76 state ADA}}\right)(EF)(1.06)(\text{District 76-77 ADA}) = \text{76-77 apportionment}$$

Table C-2: Estimated State Apportionment for 1976-77 and 1977-78 Based on Recommended Formula Changes Compared With Estimated Apportionments Under Existing Formula (In Millions)

Formula	1976-77 Total State Apportionment	1976-77 Increase Decrease	1977-78 Total State Apportionment	1977-78 Increase Decrease
SB 1641	$424,016,156	--	$475,869,910	--
Recommendation #1	454,997,064	+$30,980,908	523,628,847	+$47,758,937
Recommendation #2	428,759,932	+ 4,743,776	475,869,910	-0-
Recommendation #3	420,190,229	- 3,825,927	471,308,471	- 4,561,439
Recommendation #4	420,030,805	- 3,985,351	471,869,910	- 4,000,000
Recommendation #5	411,260,382	- 12,755,774	462,380,591	- 13,489,319
All Recommendations	437,408,935	+ 13,392,779	499,395,550	+ 23,525,640

Source: Computer simulations prepared by the Office of the Chancellor of the California Community Colleges.

APPENDIX D: STATE SUPPORT FOR THE COMMUNITY COLLEGES COMPARED WITH OTHER STATE EXPENDITURES

Table D-1, on the following page, shows state support for the California Community Colleges compared with state support for all postsecondary education and total state general fund expenditures during the period 1971-72 through 1975-76. In relation to state support for all postsecondary education (excluding capital outlay), state support for community college current expenses has risen from 24.8 percent in 1971-72 to 29.4 percent in 1975-76. At the same time community college support as a percentage of total general fund expenditures has risen from 4.6 percent to 5.2 percent (while state support for all postsecondary education dropped from 18.4 percent to 17.6 percent).

Table D-1: State Support for Community College Current Expense Compared with State Support for all Postsecondary Education and Total General Fund Expenditures (In Millions)

Year	State General Fund Support for Community College Current Expense[1]	State Support for all Postsecondary Education[1]	Percent for Community Colleges	Total General Fund Expenditures	Percent for Community Colleges
1971-72	$221.8	$ 895.5	24.8%	$4,859.2	4.6%
1972-73	242.3	1,031.9	23.5	5,519.1	4.4
1973-74	349.7	1,264.1	27.7	7,299.4	4.8
1974-75	430.1	1,473.7	29.2	8,348.6	5.2
1975-76	492.9	1,676.1	29.4	9,518.4	5.2

1. Includes property tax relief payments to community college districts and support for statewide administration.

APPENDIX E: COMMUNITY COLLEGE DISTRICT INCOME AND EXPENDITURES BY MAJOR FUND

Table E-1, on the following pages, shows community college district income and expenditures by major fund for the three years 1973-74 through 1975-76. The major funds are district general funds, bond interest and redemption funds, building funds, and special reserve funds. Excluded are child development, dormitory bond interest and redemption, cafeteria, dormitory construction, dormitory revenue, and miscellaneous other funds. As indicated, the greater part of community college income and expenditures is administered through the district general funds, which not only include all current expense of education but a large share of district capital outlay as well. The figures also show that district general fund income exceeded general fund expenditures in each of these three years by more than $100 million.

Table E-1: Community College District Income and Expenditures for Major Funds, 1973-74 through 1975-76[1]

Income/Expenditure	1973-74	1974-75	1975-76
General Funds			
Income:			
Federal	$ 50,852,910	$ 65,224,210	$ 89,380,096
State and federal	1,114,741	989,419	972,756
State	348,545,015	428,729,513	491,324,868
Counties	16,303,556	17,573,668	21,583,087
Districts	418,744,451	487,882,225	583,571,528
Totals	$835,560,673	$1,000,399,035	$1,137,832,335
Expenditures:			
Current expense of education	$625,407,135	$ 743,472,278	$ 868,011,288
Other current expense	34,719,752	51,818,499	89,207,313
Capital outlay	61,919,277	88,210,868	75,744,490
Debt service	1,803,343	1,671,487	844,512
Totals	$723,849,507	$ 885,173,132	$1,033,807,603
Bond Interest and Redemption Funds			
Income:			
Tax relief payments	$ 3,134,883	$ 3,296,366	$ 3,393,682
Tuition taxes	118,745	283,641	755
District taxes	22,688,310	24,673,067	25,083,877
Other income	2,932,585	2,839,914	2,422,113
Totals	$ 28,874,523	$ 31,092,988	$ 30,900,427
Expenditures:			
Bond interest and redemption	$ 28,445,548	$ 31,859,562	$ 32,474,056
Other expenditures	7,095	13,196	17,613
Totals	$ 28,452,643	$ 31,872,758	$ 32,491,669

Table E-1: Community College District Income and Expenditures for Major Funds, 1973-74 through 1975-76 (continued)

Income/Expenditure	1973-74	1974-75	1975-76
Building Funds			
Income:			
Bond sales	$ 2,195,727	$12,452,891	$ 2,013,949
Property sales	4,000	578,615	4,540
State	11,311,542	24,318,967	11,068,318
Federal	2,173,687	320,367	--
Other	2,250,734	1,808,875	3,078,624
Totals	$17,935,690	$39,479,715	$16,165,431
Expenditures:			
Operating expense	$ 48,966	$ 421,330	$ 387,394
Capital outlay	30,770,370	41,676,157	28,626,386
Totals	$30,819,336	$42,097,487	$29,013,780
Special Reserve Fund			
Income:			
Federal	$ --	$ 693,658	$ 656,617
State	--	18,835,632	17,979,346
Other	31,812,996	10,235,638	11,759,434
Totals	$31,812,996	$29,764,928	$30,395,397
Expenditures	$75,409,336	$62,640,487	$74,734,600

1. Excludes child development, dormitory interest and redemption, cafeteria, dormitory construction, dormitory reserve, and miscellaneous other funds.

Source: Controller's Annual Report of Financial Transactions Concerning School Districts of California.

APPENDIX F: ENROLLMENT IN NONCREDIT CLASSES (CLASSES FOR ADULTS), 1975 and 1976

According to records maintained by the Chancellor's Office, enrollment in noncredit classes in the fall of 1976 amounted to 170,755, or just under 14 percent of total enrollment in the community colleges. As the figures in table F-1 demonstrate, however, this enrollment was not evenly distributed among the colleges. Five districts--San Diego, San Francisco, North Orange, Pasadena, and Santa Barbara--accounted for 122,704 enrollees, or nearly 72 percent of the total. In these districts, adult education is largely or entirely the responsibility of the community colleges. In the others, the responsibility is shared with the unified and high school districts or given over entirely to the public schools. Thirty community college districts reported no noncredit enrollment for the fall of 1976.

Table F-1: Enrollment in Noncredit Classes (Classes for Adults), 1975 and 1976

District	Fall 1975	Fall 1976	Percent of Total Enrollment 1976
Allan Hancock	2,530	--	0.0%
Antelope Valley	236	138	2.2
Barstow	--	--	0.0
Butte	332	572	7.9
Cabrillo	336	--	0.0
Cerritos	1,260	--	0.0
Chaffey	4,828	3,073	20.9
Citrus	--	--	0.0
Coachella	1,151	--	0.0
Coast	1,536	1,245	2.1
Compton	--	--	0.0
Contra Costa	--	--	0.0
El Camino	--	--	0.0
Foothill	1,429	783	2.2
Fremont-Newark	--	--	0.0
Gavilan	216	78	3.1
Glendale	4,660	--	0.0
Grossmont	1,682	1,346	8.1
Hartnell	--	--	0.0
Imperial	--	--	0.0
Kern	2,816	--	0.0
Lake Tahoe	--	--	0.0
Lassen	--	--	0.0

Table F-1: Enrollment in Noncredit Classes (Classes for Adults), 1975 and 1976 (continued)

District	Fall 1975	Fall 1976	Percent of Total Enrollment 1976
Long Beach	5,663	5,217	16.8%
Los Angeles	--	--	0.0
Los Rios	702	--	0.0
Marin	8,907	--	0.0
Mendocino	--	--	0.0
Merced	1,094	--	0.0
Mira Costa	1,023	1,192	20.9
Monterey Peninsula	811	849	9.4
Mt. San Antonio	2,391	2,216	10.5
Mt. San Jacinto	--	--	0.0
Napa	2,840	2,747	32.8
North Orange	26,862	26,179	45.4
Palomar	1,486	1,309	8.8
Palo Verde	208	95	14.3
Pasadena	10,395	13,335	40.1
Peralta	910	661	2.0
Rancho Santiago	8,805	8,288	35.4
Redwoods	--	--	0.0
Rio Hondo	--	--	0.0
Riverside	170	--	0.0
Saddleback	333	495	3.7
San Bernardino	27	--	0.0
San Diego	33,634	34,737	50.3
San Francisco	20,061	33,011	56.4
San Joaquin Delta	1,156	--	0.0
San Jose	501	--	0.0
San Luis Obispo	--	--	0.0
San Mateo	491	152	0.5
Santa Barbara	9,735	15,442	63.8
Santa Clarita	--	--	0.0
Santa Monica	1,516	1,383	7.7
Sequoias	272	132	1.8
Shasta-Tehama-Trinity	3,131	2,566	25.3
Sierra	596	384	4.9
Siskiyous	463	850	34.9
Solano	231	244	2.7
Sonoma	2,973	3,539	18.2
South County	621	227	1.0
State Center	290	55	0.3
Sweetwater	761	772	6.1

Table F-1: Enrollment in Noncredit Classes (Classes for Adults), 1975 and 1976 (continued)

District	Fall 1975	Fall 1976	Percent of Total Enrollment 1976
Ventura	2,070	1,230	4.6%
Victor Valley	1,317	1,235	29.2
West Hills	165	166	7.6
West Kern	653	417	42.1
West Valley	1,171	--[1]	--
Yosemite	4,685	3,569	18.0
Yuba	745	788	8.5
Totals	182,859	170,755	13.8%

1. No report for 1976.

Source: Chancellor's Office, California Community Colleges

APPENDIX G: DESCRIPTION OF THE COMMISSION'S SURVEY OF TWO-YEAR COLLEGE FINANCE IN OTHER STATES

However effective the diversity of two-year colleges might be in serving different community needs, the range of governance and finance systems makes systematic comparisons among the states very difficult. In order to understand the California system within a larger context, the Commission's staff first reviewed the recent literature on community colleges from the national perspective, especially studies of their historical development and contemporary trends in organization and finance. It was soon obvious, however, that such broad perspectives would help little in analyzing the specific problems of the California community colleges or in suggesting tangible alternatives. Therefore, the staff's focus turned toward a few, systematically selected states which would be studied through some sort of questionnaire.

After several meetings and much advice, the staff composed the two questionnaires which follow. The first was designed for budget experts who were thoroughly knowledgeable about the intricacies of the finance system. The second was intended for administrators, faculty leaders, state officials and legislators, since it involved general perceptions of policy makers responsible for the direction of two-year colleges.

Two alternatives were possible in constructing the questionnaires. They could be short and simple to answer, thereby encouraging a prompt response. Alternatively, the document could be detailed and encompassing in order to obtain information not readily available in existing literature. The staff chose the latter approach, which, though the number of responses would be more limited, meant that each response would have more substance and be more useful.

The next step was to select the states to be surveyed based on pertinent criteria. Obviously, the "pacesetter states" of Florida, Illinois, Michigan, New York, Texas and Washington[1] needed some representation in the poll. From these, New York was chosen because, like California, it has large urban concentrations and, at least in New York City, a tradition of "free" education for the first two years. The staff chose Illinois because of its recent financing changes and Florida because of its curious system of total state support and local, semi-autonomous districts. Virginia's consolidation of funding and governance at the state level made it an important exception to the common pattern in America. The staff

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1. Leland L. Medsker and Dale Tillery, Breaking the Access Barriers: A Profile of Two-Year Colleges, New York (1971), p. 26.

selected Texas because of the challenge of providing education for racially and ethnically distinct people who are crowded into urban centers with high unemployment and for citizens living in rural communities separated by vast stretches of farm or ranchland. Finally, the staff chose three states because of their unique characteristics: Colorado for its dual system of state and local colleges, Mississippi for its similarities to California's system of districts, and Hawaii for its centralized governance as a division of the University. This range of states and college systems with strategic similarities and dissimilarities to California--in terms of geographic size, demographic characteristics and educational philosophy--promised to reveal several alternative solutions to the problems of community college finance.

The questionnaires were then sent, with a letter of introduction, to a variety of state officials responsible for two-year colleges, the executive officers of the college systems, a few political leaders interested in education, and presidents of faculty associations. Although the return rate was roughly one in four, we received enough questionnaires, along with publications from the states, to gain a thorough understanding of the two-year colleges' objectives and their financing mechanisms to meet those objectives. This information was then organized to present the experiences of other states in facing the most controversial issues in California: the viability of the district system of taxation and state-local sharing, a cost-analysis basis for funding, formula incentives for certain kinds of programs, affirmative action, tuition, and an equitable tax system. Throughout the discussion appear examples of the most important tension in community college finance today: the fact that the local and institutional objectives of increasing student enrollment and broader offerings often conflict with the state's interest in holding down expenditures and holding the colleges accountable for quality in formal education.

DATA CONCERNING THE FINANCE SYSTEM OF TWO-YEAR COLLEGES

I. SOURCES OF FUNDING *(Please indicate the source for this information.)*

A. In the following spaces, please show dollars and the percentage of total funds appropriated to your state's two-year colleges:

APPROPRIATIONS FOR 1974-1975

	Local Sources (Specify the local unit.)	State Sources (Specify General or Special Funds.)	Student Tuition and Fees	Federal Government	Other Sources (Specify)	TOTAL
Capital Outlay						
Operating Expenditures						
Student Services						

APPROPRIATIONS FOR 1975-1976

	Local Sources (Specify the local unit.)	State Sources (Specify General or Special Funds.)	Student Tuition and Fees	Federal Government	Other Sources (Specify)	TOTAL
Capital Outlay						
Operating Expenditures						
Student Services						

B. How is money raised at the local level for Capital Outlay?

	% Property tax (Percent of total raised locally);
	% Sales tax (Percent of total raised locally);
	% Income tax (Percent of total raised locally);
	% Other (Please specify).

C. How is money raised at the local level for Operating Expenditures?

	% Property tax (Percent of total raised locally);
	% Sales tax (Percent of total raised locally);
	% Income tax (Percent of total raised locally);
	% Other (Please specify).

D. Who sets the tax rates at the local level for Capital Outlay?

E. Who sets the tax rates at the local level for Operating Expenditures?

F. How much is each student charged for tuition and fees? (If charges vary by course or program, please list all the charges):

G. Are funding distinctions made among students or programs (for instance, among regular full-time students, academic transfer students, those in vocational education and recreational courses, part-time students)?

H. By what methods and by whom are these distinctions made?

II. ENROLLMENT ACCOUNTING PRACTICES

A. What is the standard unit to measure enrollment in your state's two-year colleges (example: Average Daily Attendance, Full-Time-Equivalent Student, etc.)? _____
What measures constitute this unit (example: 12 classroom hours/week=1 FTE student)?

B. How are course enrollments and census dates determined?

C. Are enrollments funded by specified census dates? _____
Explain.

D. What determines the academic credit assigned to the following kinds of courses: lecture classes, laboratory time, recreational courses, vocational courses, credit-no credit options?

E. How does academic credit differ among these kinds of courses?

III. BUDGET DETERMINATION: CAPITAL OUTLAY AND OPERATING COSTS

A. Is an institution's income determined by a formula? _____.

1. Is funding:

☐ Dollar Amount Per Student: Amount $_____.

☐ Dollar Amount Per Full-Time Student: Amount $_____.

☐ Given number of Dollars Per Institution, based on:

☐ Cost Analysis ☐ Institutional Requests

☐ Apportionment Formula and how derived:

Please explain any answer more fully:

2. How is the formula or relationships among factors changed?

B. How and by whom are budgets initially put together?

C. How and by whom are budgets subsequently reviewed and approved?

D. Is there extensive budget review at the State level?

E. How are adjustments made for over-budgeting and under-budgeting?

F. What State categorical aid programs exist, and how much is spent in each category?

G. Both for Capital Outlay and Operating Costs, do the two-year colleges differ from the finance system used to support other institutions of public higher education?_____. If so, how do the two-year colleges differ?

H. Why do the two-year colleges differ from the finance system used to support other institutions of higher education?

SURVEY OF THE MOST IMPORTANT ISSUES

AFFECTING FINANCE OF TWO-YEAR COLLEGES

A. Could you provide a general statement on the mission of two-year colleges in your state, especially in comparison with four-year institutions?

B. How is the level of student tuition and fees justified?

C. Is the amount of time an instructor spends in the classroom an important issue?

D. Have certain target populations (senior citizens, minority group members, etc.) been identified for special attention by two-year colleges? How has the system of finance been used in this effort? Have special efforts been made to recruit and hold these students?

E. Has public funding of avocational-recreational courses become an important issue? How has this debate affected two-year college finance?

F. What are the most serious problems in your state's two-year college finance system? How is your state solving these problems?

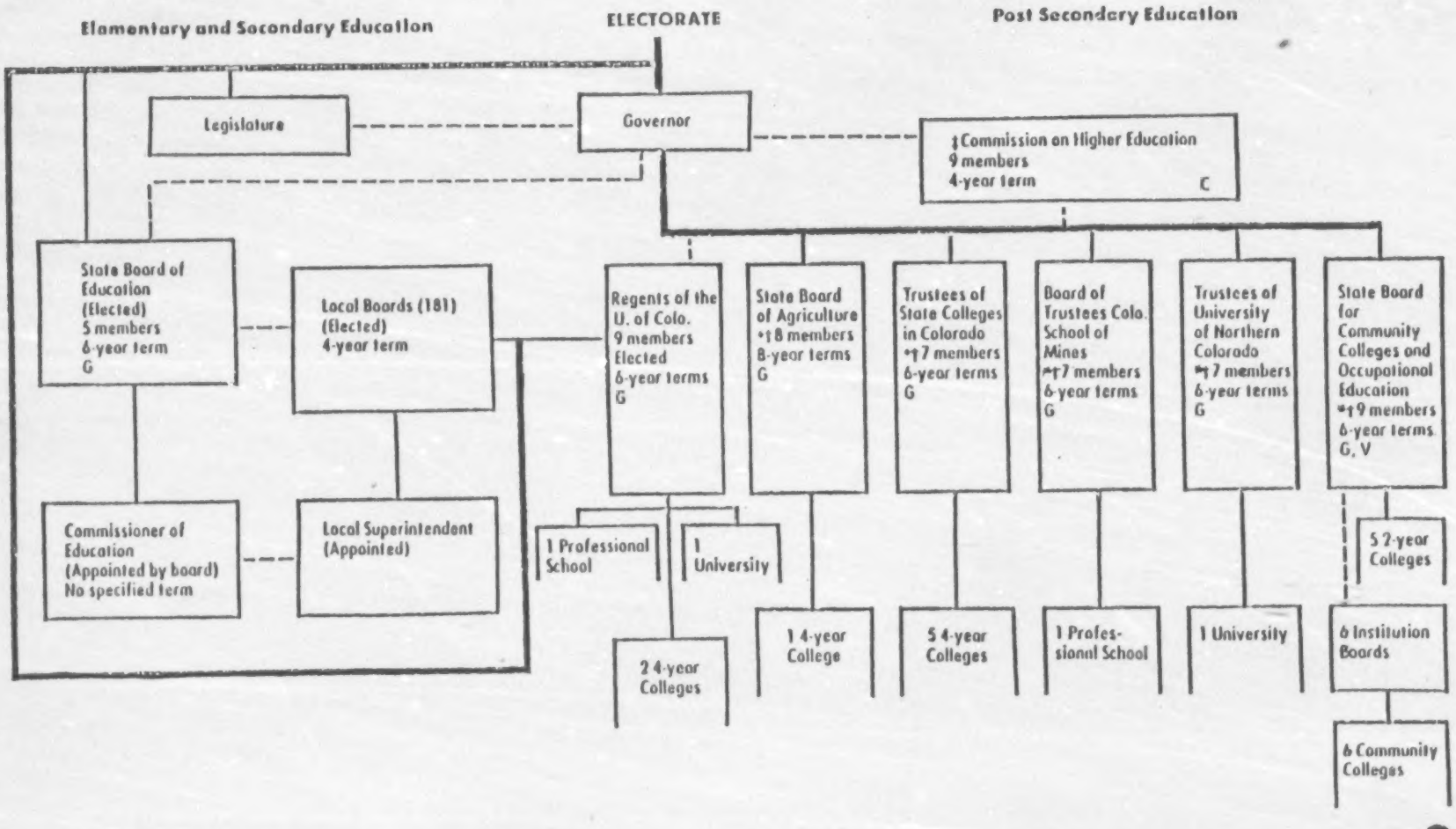
G. What are the recent trends in your state regarding two-year college finance, especially in regard to changing enrollment patterns and changes in the proportions of state and local support.

H. What are the general policy justifications and objectives for your state's system of two-year college finance, both for capital outlay and operating expenses?

I. How effective is your finance system in meeting these objectives?

Educational Structures of the CPEC Survey States

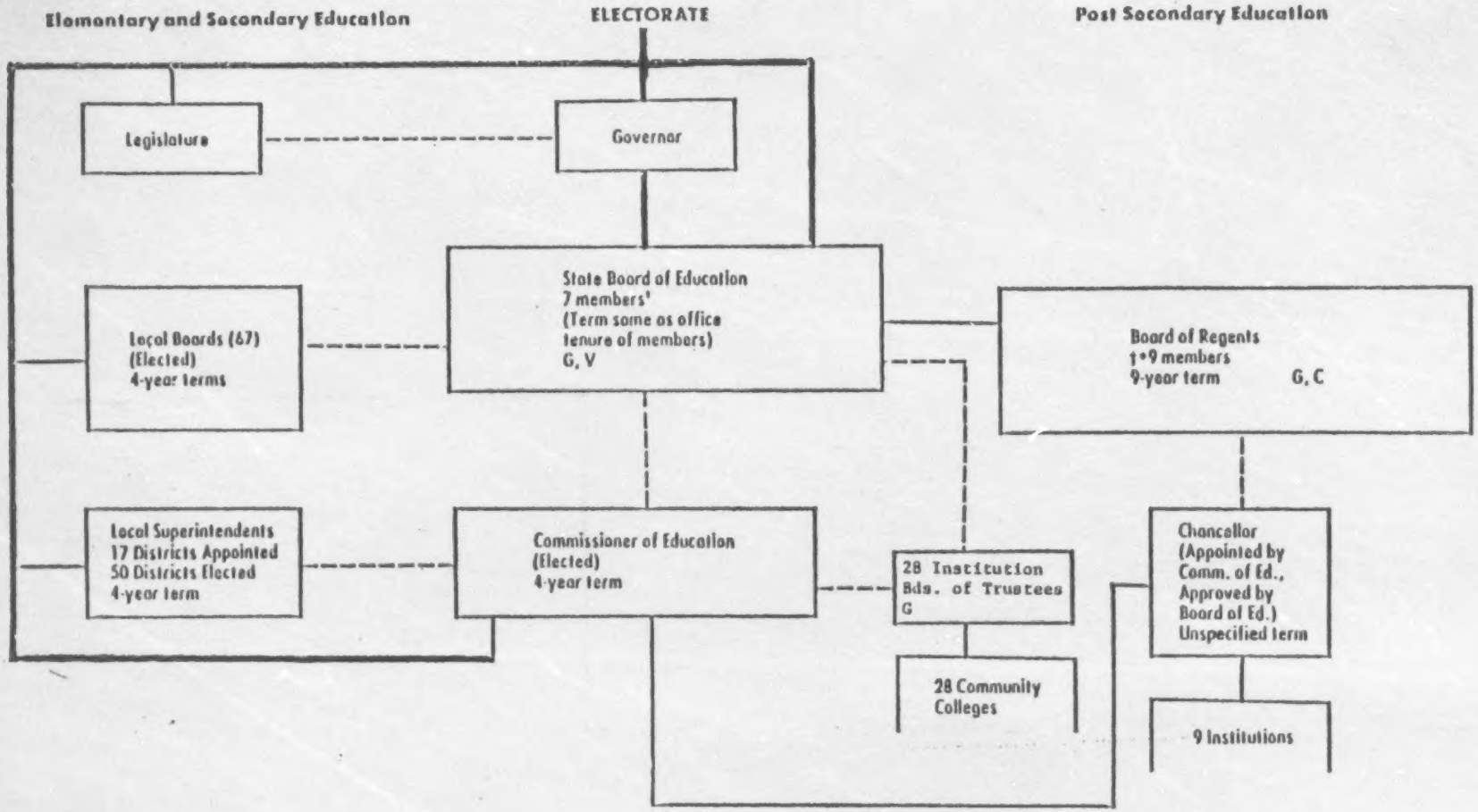
The following organizational charts for the education systems of each survey state were drawn from the Governor's Study Commission on Structure and Governance of Education in Maryland, Report of the Governor's Commission on Education (Baltimore, 1975).



† Appointed by Governor
• Confirmed by Senate
G—Governing board
V—Serves as State Board for Vocational Education

G-9

COLORADO

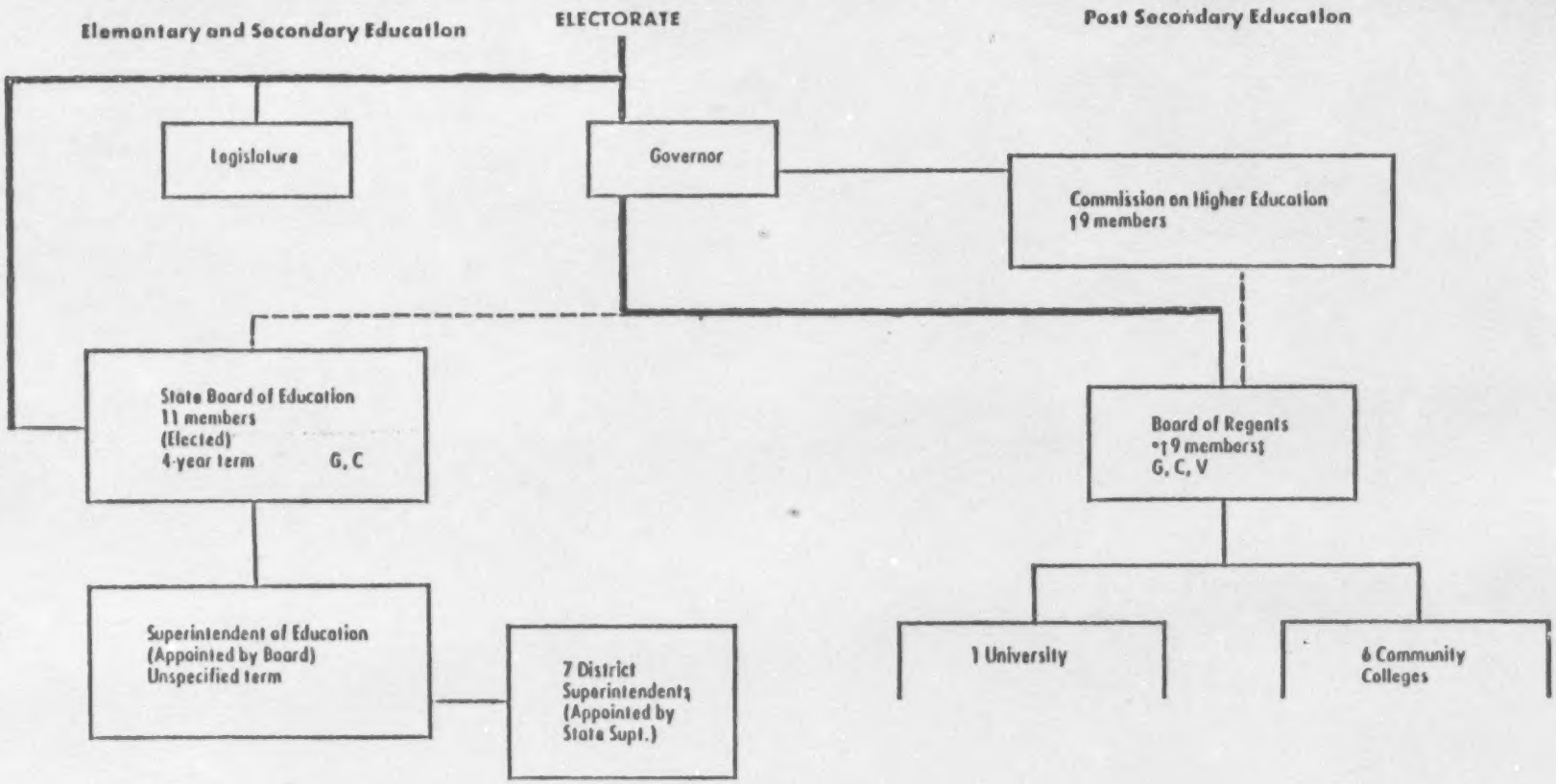


G-10

• Confirmed by Senate
† Appointed by Governor
G—Governing board
C—Coordinating board
V—Serves as State Board for Vocational Education

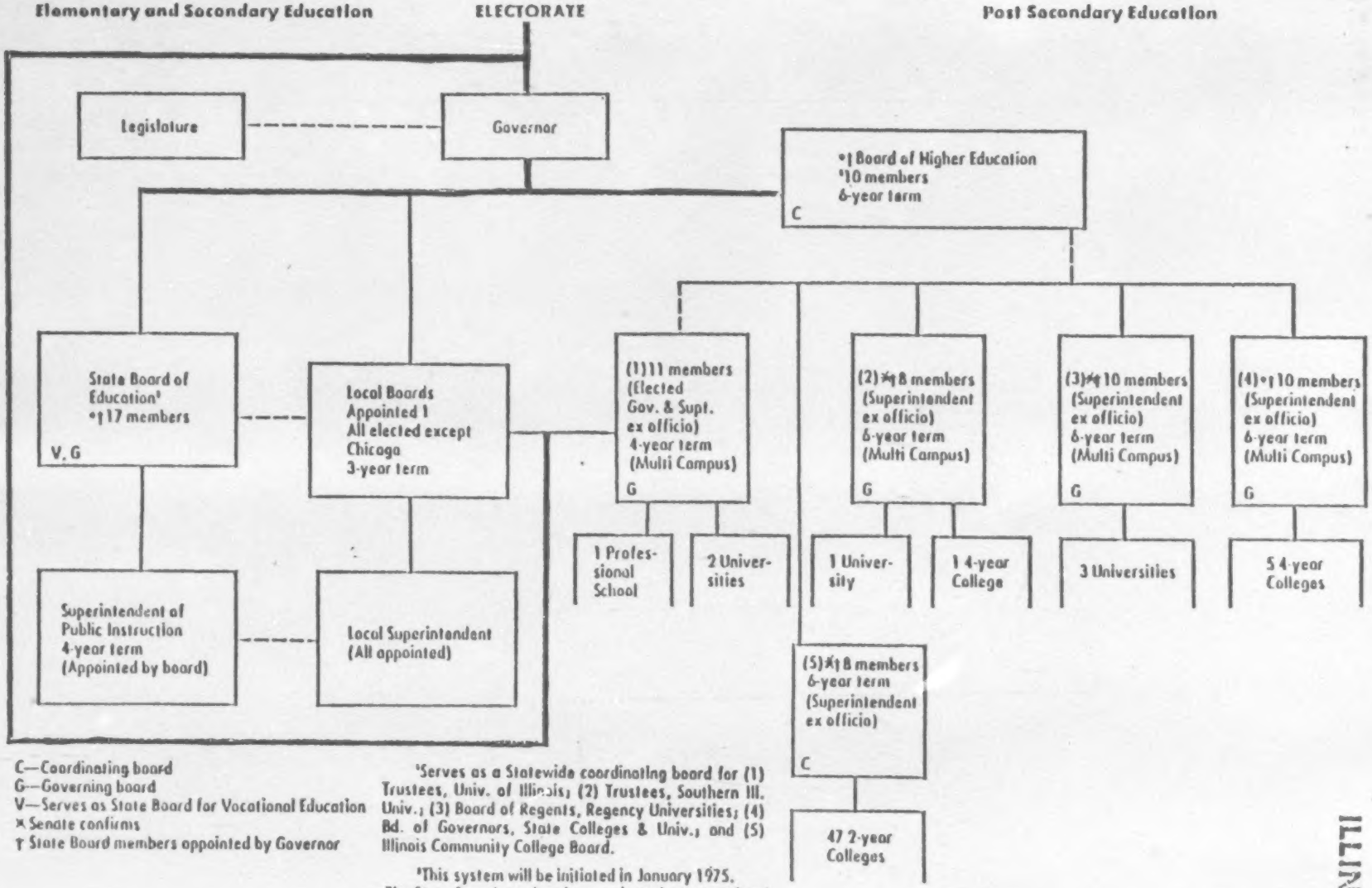
'Board comprised of Governor, Sec. of State, Atty. General, State Comptroller, State Treasurer, Commissioner of Agriculture & Commissioner of Education

HAWAII



† Appointed by Governor
• Confirmed by Senate
G—Governing board
C—Coordinating board
V—Serves as State Board for Vocational Education
‡ The main university campus & community colleges operate as part of the University

G-11

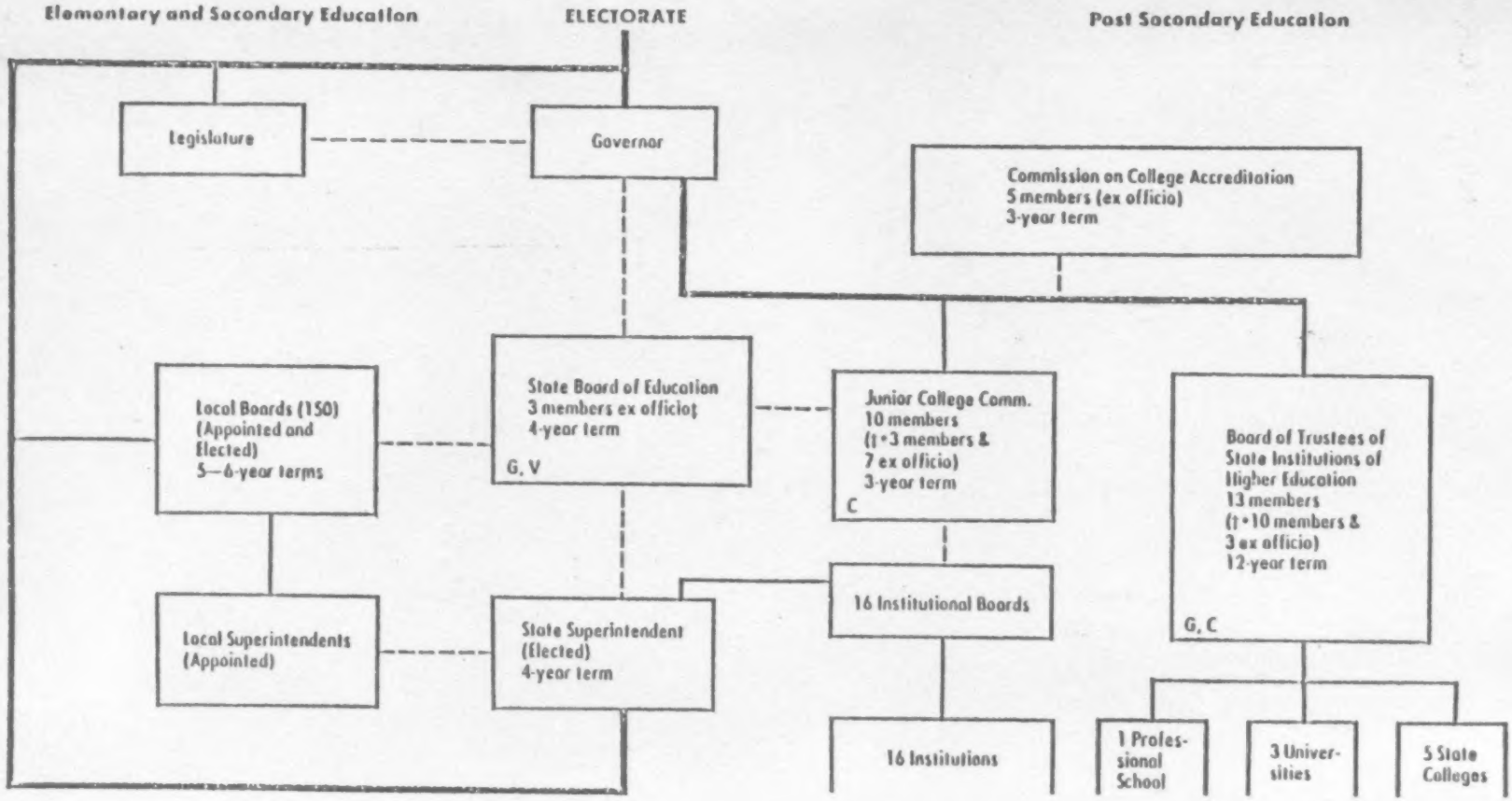


C—Coordinating board
G—Governing board
V—Serves as State Board for Vocational Education
* Senate confirms
† State Board members appointed by Governor

¹Serves as a Statewide coordinating board for (1) Trustees, Univ. of Illinois; (2) Trustees, Southern Ill. Univ.; (3) Board of Regents, Regency Universities; (4) Bd. of Governors, State Colleges & Univ.; and (5) Illinois Community College Board.

²This system will be initiated in January 1975. The State Superintendent is now elected; no state level E&S board exists

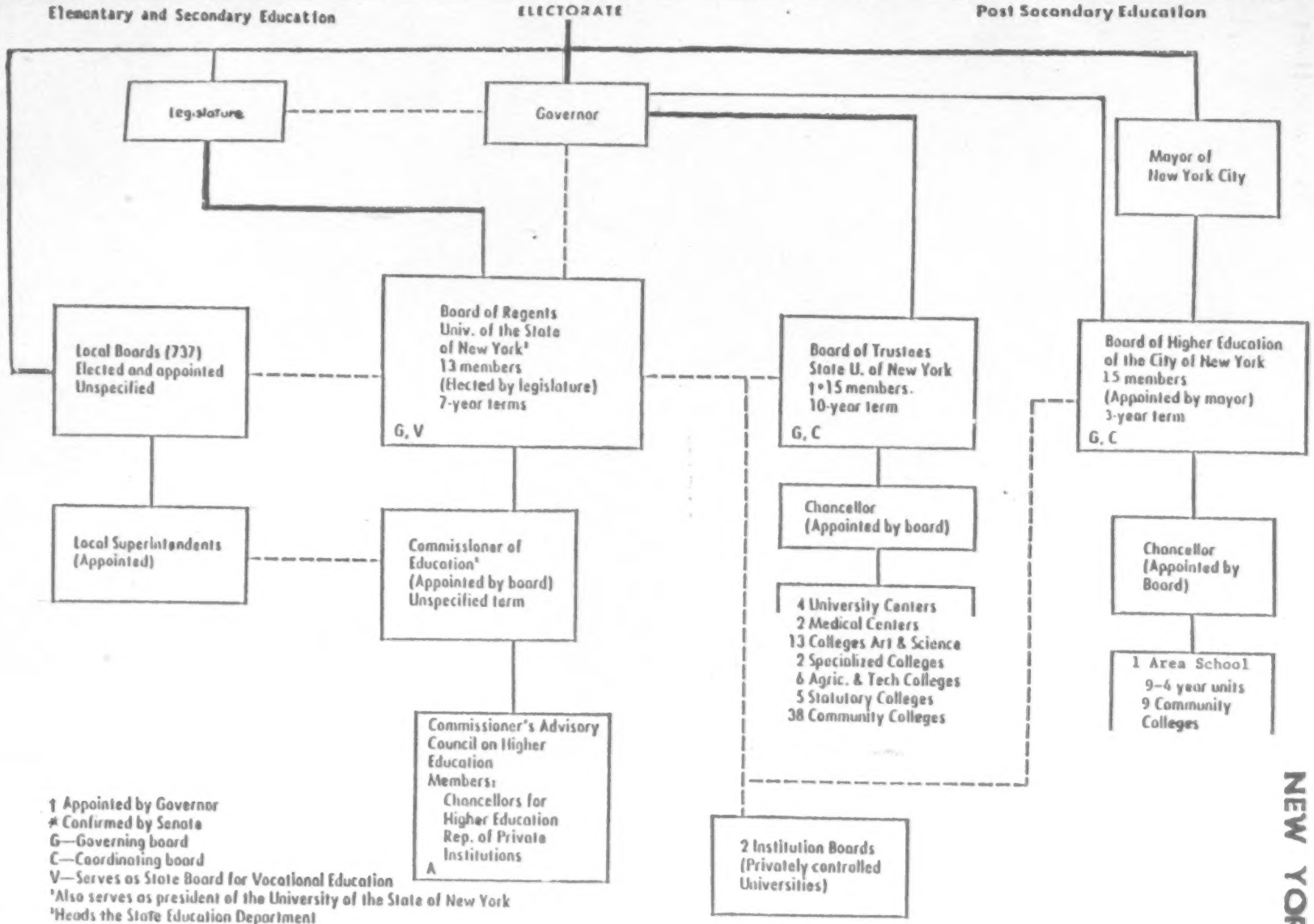
MISSISSIPPI



‡ Consists of Secretary of State, Attorney General, State Superintendent
† Appointed by Governor
• Confirmed by Senate
G—Governing board
C—Coordinating board
V—Serves as State Board for Vocational Education

G-13

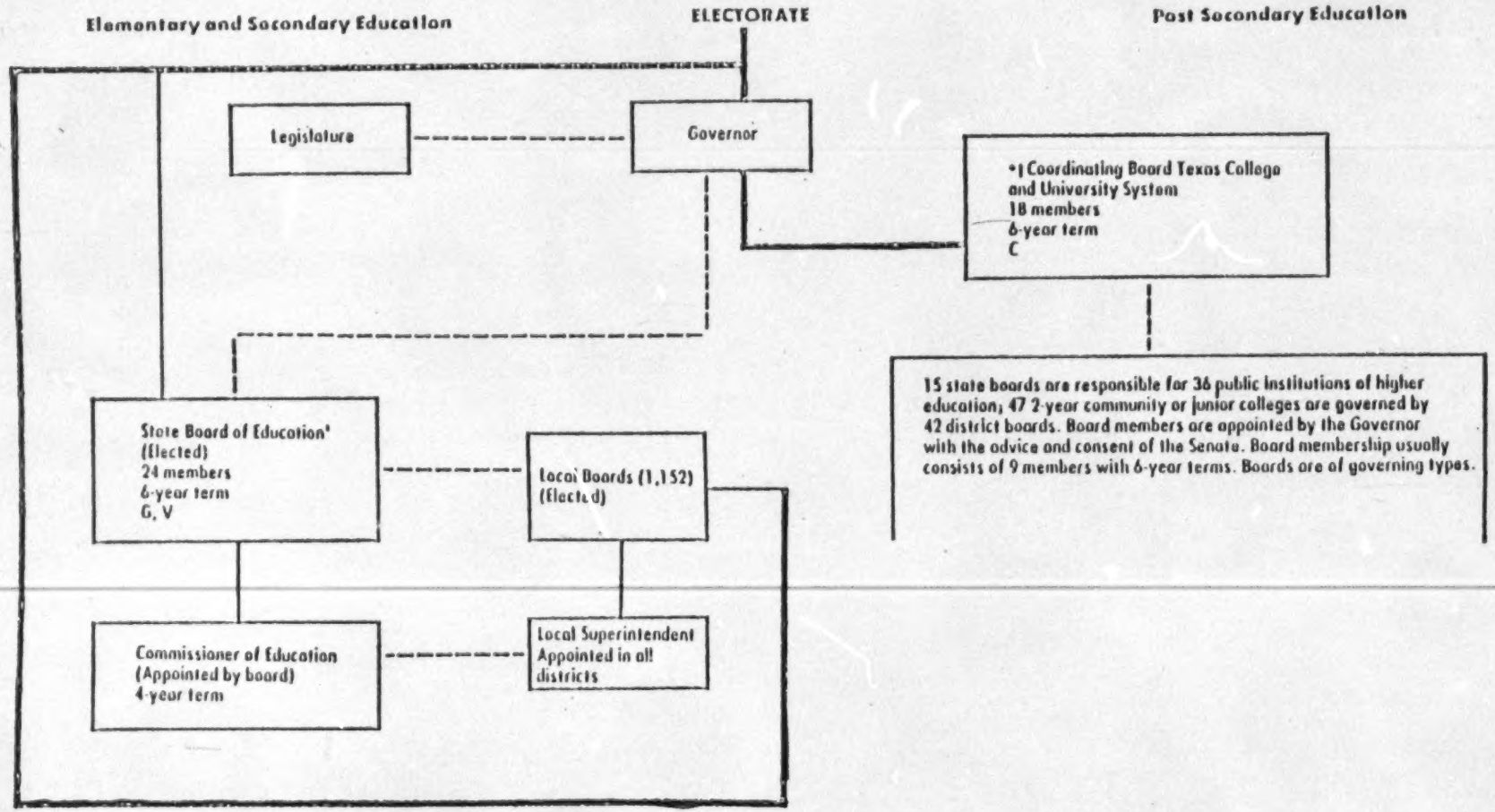
MISSISSIPPI


Elementary and Secondary Education
ELECTORATE
Post Secondary Education
Legislature
Governor
Mayor of New York City
Local Boards (737) Elected and appointed Unspecified
Board of Regents Univ. of the State of New York[2] 13 members (Elected by legislature) 7-year terms
G, V
Board of Trustees State U. of New York 1*15 members. 10-year term
G, C
Board of Higher Education of the City of New York 15 members (Appointed by mayor) 3-year term
G, C
Local Superintendents (Appointed)
Commissioner of Education[2] (Appointed by board) Unspecified term
Chancellor (Appointed by board)
Chancellor (Appointed by Board)
4 University Centers
2 Medical Centers
13 Colleges Art & Science
2 Specialized Colleges
6 Agric. & Tech Colleges
5 Statutory Colleges
38 Community Colleges
1 Area School
9-4 year units
9 Community Colleges
Commissioner's Advisory Council on Higher Education
Members:
Chancellors for Higher Education
Rep. of Private Institutions
A
2 Institution Boards (Privately controlled Universities)
† Appointed by Governor
* Confirmed by Senate
G—Governing board
C—Coordinating board
V—Serves as State Board for Vocational Education
[2]Also serves as president of the University of the State of New York
[3]Heads the State Education Department
A—Advisory board

C-14

NEW YORK

TEXAS


Elementary and Secondary Education
ELECTORATE
Post Secondary Education
Legislature
Governor
•† Coordinating Board Texas College and University System
18 members
6-year term
C
15 state boards are responsible for 36 public institutions of higher education; 47 2-year community or junior colleges are governed by 42 district boards. Board members are appointed by the Governor with the advice and consent of the Senate. Board membership usually consists of 9 members with 6-year terms. Boards are of governing types.
State Board of Education*
(Elected)
24 members
6-year term
G, V
Local Boards (1,152)
(Elected)
Commissioner of Education
(Appointed by board)
4-year term
Local Superintendent
Appointed in all districts

G-15

*State Board serves as one part of the Texas Education Agency. TEA also includes the State Board for Vocational Education, & State Commission of Education. The Commissioner of Education serves as executive officer of the TEA, and as executive secretary of the State Board of Education, and of the State Board for Vocational Education.

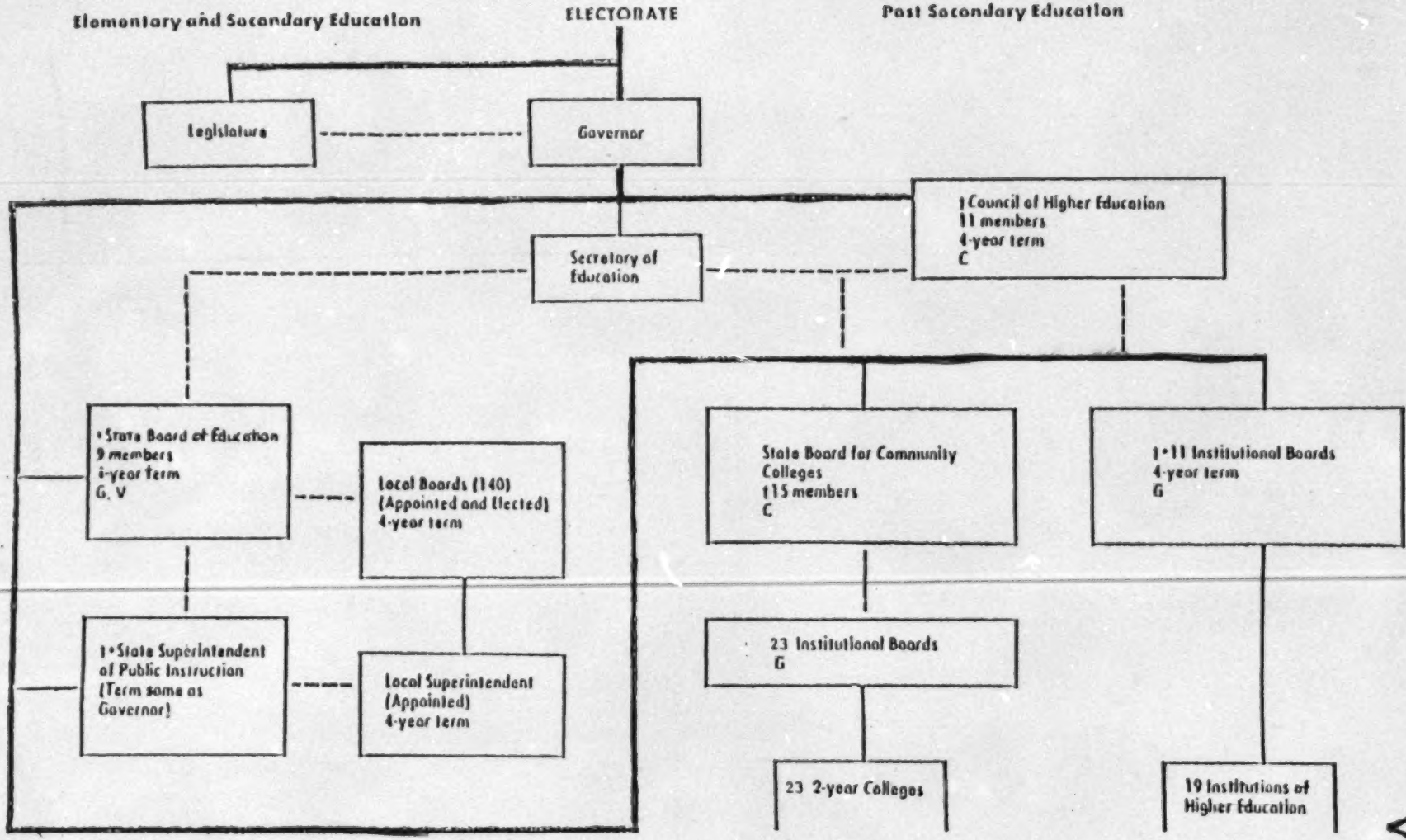
C—Coordinating board

G—Governing board

• Senate confirms

† State Board members appointed by Governor

VIRGINIA



C—Coordinating board
G—Governing board
V—Serves as State Board for Vocational Education
† Appointed by Governor
• Confirmed by General Assembly

G-16

VIRGINIA

APPENDIX H: SOURCES FOR TABLE 18, PAGES 74-75 (COMPARISONS OF THE LEVEL OF SUPPORT PER FULL-TIME-EQUIVALENT STUDENT AMONG TWO-YEAR COLLEGES IN SELECTED STATES, 1974-75, 1975-76)

New York State Education Department, A Summary of Major Changes in the State's Higher Education System and Funding in Recent Years, Albany, 1976, pp. 23-25.

Chronicle of Higher Education, August 4, 1975, p. 1.

Response to CPEC survey questionnaire from Cornelius Robbins, Associate Chancellor for Community Colleges, State University of New York, July 13, 1976.

* * *

Illinois Board of Higher Education, Data Book on Illinois Higher Education, Springfield, 1976, pp. 10, 192.

Illinois Community College Board, "Summary of Community College Funding Proposals for Fiscal Year 1977," Springfield, 1976, p. 20.

___, Fiscal Year 1977 Operating Budget Recommendations for the Illinois Public Community College System, Springfield, 1975, pp. 18-20.

* * *

Texas, Coordinating Board for the College and University System, Texas Higher Education, 1968-1980: A Report to the 64th Legislature of the State of Texas, Austin, 1975, pp. 29, 102.

Texas, Coordinating Board for the College and University System, Statistical Supplement to the Annual Report of the Coordinating Board . . . for the Fiscal Year 1975, Austin, 1975, pp. 137-139.

* * *

Education Commission of the States, Higher Education in the States, Volume V, No. 4, 1976, pp. 216-217.

State Council of Higher Education for Virginia, Higher Education in Virginia: A Report in Support of the Virginia Plan, 1975-76, Richmond, 1976, p. 29.

Response to CPEC survey questionnaire from Daniel Crooks, Director of Administration and Finance, Virginia Department of Community Colleges, October 13, 1976.

* * *

Enrollment information from the State Board for Community Colleges and Occupational Education, Denver, Colorado, December, 1976.

Response to CPEC survey from James L. Buysse, Internal Auditor of the State Board for Community Colleges and Occupational Education, Denver, Colorado, June 4, 1976.

Response to CPEC survey from Bill Adrian, Deputy Director of the Colorado Commission on Higher Education, June 4, 1976.

* * *

Florida Department of Education, Division of Community Colleges, Report for Public Community Colleges, 1974-75, Tallahassee, 1976, pp. 23, 30, 56, 68.

Education Commission of the States, Higher Education in the States, Volume V, No. 4, 1976, p. 161.

* * *

Enrollment Information, George V. Moody, Director of the State Department of Education's Division of Junior Colleges, Jackson, Mississippi, December 1976.

Response to CPEC survey from Francis Geoghegan, Director, Mississippi Commission of Budget and Accounting, June 29, 1976.

APPENDIX I: THE FLORIDA SYSTEM OF SUPPORT FOR COMMUNITY COLLEGES: A DETAILED DESCRIPTION

The Florida system of two-year colleges is an interesting experiment in designed growth and shared authority. Because the system has been so carefully planned and offers such clear alternatives to most other systems, the Commission's staff decided to present this additional analysis.

Shortly after World War II, several local public school systems established junior colleges in Florida's metropolitan areas. Although financed through a mechanism similar to secondary schools, the junior colleges soon became an important part of higher education: over half of the 1962 Florida freshmen who enrolled in higher education were junior college students or in area vocational centers.

So, Florida faced the crisis of two-year college growth before most other states: the number of junior colleges increased from 5 to 25 and enrollment from 5,000 to 30,000 between 1956 and 1961, a percentage growth unmatched in the United States at that time. Partly as a result of the perceptive studies of Dr. James Wattenbarger and partly from a firm conviction among the state's political leaders that planning and coordination should take precedence over local interests, the Florida higher education system emerged as a conspicuous alternative to the systems in other states.[1]

The problem of governance and finance for these booming institutions was considered initially in 1965 by the Florida Legislature, but the shape of the modern system was not finished until 1968. Then, independent local boards of trustees were created and charged with governing the colleges, a common pattern among the states.[2] Although each of the 28 college districts is by law a separate legal entity with "the powers necessary for governmental operation for [its] respective college," full state funding on the basis of a cost-per-student formula imposes a serious limitation on the board's flexibility.[3] Furthermore, the September 1975, position paper identifies

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1. Florida State Department of Higher Education, Florida's Public Junior Colleges (Tallahassee, 1967). Dayton Y. Roberts, "Florida's Community-Junior Colleges," in Highlights of A Decade (Tallahassee, 1967).

2. James Wattenbarger, "Five Years of Progress in Florida," in Roger Yarrington, Junior Colleges: 50 States/50 Years (Washington, 1969), pp. 56-61. Interview with Margaret Gordon, Associate Director of the Carnegie Council for Higher Education, Berkeley, California, April 14, 1976.

3. Florida Community Colleges, Position Paper I, p. 1.

the establishment of goals and objectives for public education as "clearly a responsibility of the state level agency; however, local agencies [boards] should retain maximum freedom in implementing the goals and objectives, but should be accountable to the state for how well the goals and objectives are accomplished."[4] Given large enrollment increases, the Department of Education's Division for Community Colleges and the Legislature have shown little inclination to allow "local autonomy" to threaten effective coordination of the budget.

Florida budgeting is an interesting process based on historical costs divided by the number of full-time-equivalent students. The total state allocation is computed from aggregating the costs at individual colleges of providing instruction plus growth and adjustment factors, a minus student fees and federal funds. The process is as follows:[5]

I. An annual cost analysis is performed by each college which examines the records of actual expenditures for the preceding year. This analysis is reported to the State in October of each year.

II. The cost-analysis presents the computed unit cost per course for each course taught at a college. The course costs include a pro-rata share of the teacher's total salary and benefits, a pro-rata share of instructional plant and maintenance costs.

III. The cost-analysis report in October shows course costs combined into discipline costs and discipline costs aggregated into broad curriculum-program costs. The discipline and curriculum-program costs are expressed in dollars per FTE student. These costs are then distinguished into groups of large colleges (over 1,300 FTE students) and small colleges (under 1,300 FTE students).

IV. For both groups (large and small colleges), costs per FTE student by discipline and by program are collected by the State, and a "state wide average cost per FTE student" is computed for each discipline. A cost ratio for each discipline is calculated by dividing the cost of each discipline category by the statewide average cost per FTE student.

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4. Ibid., p. 3.

5. The following description is based on materials by Philip D. Goldhagen, Response to CPEC Survey, May 21, 1976 and on James Wattenbarger and Paul Starnes, "State Funding Formulae for Public Two-Year Colleges" (Gainesville, Florida, 1973), pp. 18-25.

Example:

Health Professions / All Students = $\frac{\$1,800/\text{FTE student}}{\$1,000/\text{FTE student}}$ = 1.8 Cost Ratio for Health Sciences

This ratio establishes the differential costs among disciplines.

V. A coming year, statewide, unitary cost per student is computed by the State as:

1. The base year, statewide average cost per FTE student;

2. An added adjustment for economic conditions (generally calculated from the Consumer Price Index and called "the economic lag factor");

3. An adjustment for equipment costs and depreciation;

4. An adjustment subtracted for student fees and incidental college income;

5. An adjustment subtracted for federal funds.

The coming year, statewide, unitary cost is then multiplied by the cost ratio for each discipline to produce the coming year, projected cost per FTE student in each discipline category.

VI. The estimated FTE student enrollments by discipline category are submitted by the colleges to the state. They are then multiplied by the current year projected cost per FTE student in each of the disciplines. The amounts generated in each discipline category are then totaled to produce the entire colleges's allocation for the current year.

VII. The Department of Education's Division of Community Colleges makes periodic adjustments during the fiscal year as actual FTE student enrollments are reported, however, these adjustments are redistributions within the college system. The total amount of operating revenues available for colleges remains fixed throughout the fiscal year unless the Legislature acts to change it.

As Table 1 indicates, this cost-accounting method results in significant differences in the state's allocation per FTE students among the various disciplines.

TABLE 1

SYSTEMWIDE TOTALS FOR THE FLORIDA COMMUNITY COLLEGES, 1973-1974

FIELD OF STUDY	1973-74 FTE STUDENTS	1973-74 STATE ALLOCATION	COST 1973-74 STATE LEVEL COST/FTE STU.
Advanced & Professional			
Agricul. & Nat. Res.	29.83	$ 28,942.75	$ 970.26
Architecture & Engr.	58.73	74,644.13	1,270.97
Area Studies	2.55	2,493.06	977.67
Biological Studies	6,820.92	6,044,223.23	886.13
Business & Management	3,345.26	3,006,886.73	898.85
Communications	1,120.25	989,939.63	883.68
Computer & Info. Srv.	569.25	610,565.69	1,072.58
Education	3,752.15	4,417,780.87	1,177.40
Engineering	100.02	146,545.65	1,465.16
Fine & Applied Arts	9,148.52	8,997,711.65	983.52
Foreign Languages	1,745.31	1,899,608.93	1,088.41
Health Professions	289.86	340,064.91	1,173.20
Home Economics	113.92	111,376.17	977.67
Law	170.60	150,502.07	882.19
Letters	15,645.48	15,395,225.33	984.00
Etc.			
Total Advanced & Professional	83,600.36	$76,554,108.17	$ 915.72
Occupational			
Agriculture	601.13	$ 710,449.32	$1,181.86
Distributive	3,305.11	3,268,275.32	988.86
Health	4,921.75	7,717,692.66	1,568.08
Home Economics	1,452.02	1,696,251.21	1,168.20
Office	7,135.23	7,688,263.50	1,077.51
Trade and Industrial	5,259.88	6,193,477.10	1,177.49
Technical	8,448.27	9,999,678.30	1,183.64
Total Occupational	31,123.39	$37,274,087.41	$1,197.62
Developmental			
Post High School	1,550.48	$1,661,463.95	$1,071.58
Elementary and Sec.	4,686.31	5,037,391.79	1,074.92
Total Developmental	6,236.79	$6,698,855.74	$1,074.09
Community Instr. Servs.			
Citizenship	2,029.44	$1,987,113.29	$ 979.14
Enrichment & Avocat.	860.02	772,854.18	898.65
Total Comm. Instr. Servs.	2,889.46	$2,759,967.47	$ 955.18
GRAND TOTAL	123,850.00	$123,287,018.79	$ 995.45

Despite the real danger that costs and expenditures develop a self-fulfilling relationship which can discourage efforts to break established patterns, Florida officials insist that their method of finance is the most rational way to distribute resources and insure adequate operating support for education.

UNIVERSITY OF CALIF.
LOS ANGELES

SEP 16 1977

CLEARINGHOUSE FOR
JUNIOR COLLEGES